

PS BUSINESS PARKS INC/CA
Form 10-K/A
May 16, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
(Amendment No. 1)**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007.

or

o **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 or organization)*

95-4300881
(I.R.S. Employer Identification No.)

701 Western Avenue, Glendale, California 91201-2397
(Address of principal executive offices) (Zip Code)
818-244-8080

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|-----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| Common Stock, \$0.01 par value per share | American Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a Share of 7.000% Cumulative Preferred Stock, Series H, \$0.01 par value per share | American Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a Share of 6.875% Cumulative Preferred Stock, Series I, \$0.01 par value per share | American Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a Share of 7.950% Cumulative Preferred Stock, Series K, \$0.01 par value per share | American Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a Share of 7.600% Cumulative Preferred Stock, Series L, \$0.01 par value per share | American Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a Share of 7.200% Cumulative Preferred Stock, Series M, \$0.01 par value per share | American Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a Share of 7.375% Cumulative Preferred Stock, Series O, \$0.01 par value per share | American Stock Exchange |

Depository Shares Each Representing 1/1,000 of a Share of
6.700% Cumulative Preferred Stock, Series P, \$0.01 par value
per share

American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

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 June 30, 2007, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,008,792,163 based on the closing price as reported on the American Stock Exchange.

Number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of February 22, 2008 (the latest practicable date): 20,413,379.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2008 are incorporated by reference into Part III of this Annual Report on Form 10-K.

Explanatory Note

PS Business Parks, Inc. (the Company) is filing this Amendment No. 1 on Form 10-K/A in order to correct the inadvertent omission of the conformed signature of Ernst & Young LLP in the Report of Independent Registered Public Accounting Firm contained at page 50 following Item 9A and at page 55 in Item 15 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and from the Consent of Independent Registered Public Accounting Firm, filed as Exhibit 23. The Company is amending the Form 10-K solely for the purpose of including the conformed signatures of Ernst & Young LLP on these documents.

No other changes are being made to the Financial Statements or other information in Items 8, 9A and 15. In accordance with SEC rules applicable to the filing of amendments to Annual Reports on Form 10-K, we are including in this amendment the complete text of Items 8, 9A and 15 together with updated Certifications of the Chief Executive Officer and Chief Financial Officer. Except as described above, this amendment does not change any previously reported financial results, modify or update disclosures in the Form 10-K, or reflect events occurring after the date of the filing of the Form 10-K.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company at December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 and the report of Ernst & Young LLP, Independent Registered Public Accounting Firm, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index to Consolidated Financial Statements and Schedules in Item 15.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports the Company files and submits under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in accordance with SEC guidelines and that such information is communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure based on the definition of disclosure controls and procedures in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures in reaching that level of reasonable assurance.

As of December 31, 2007, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2007.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee on Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007, has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
PS Business Parks, Inc.

We have audited PS Business Parks, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PS Business Parks, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PS Business Parks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 and our report dated February 26, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 26, 2008

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. 1. Financial Statements

The financial statements listed in the accompanying Index to Consolidated Financial Statements and Schedules are filed as part of this report.

2. Financial Statements Schedule

The financial statements schedule listed in the accompanying Index to Consolidated Financial Statements and Schedules are filed as part of this report.

3. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed with or incorporated by reference in this report.

b. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed with or incorporated by reference in this report.

c. Financial Statement Schedules

Not applicable.

PS BUSINESS PARKS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES
(Item 15(a)(1) and Item 15(a)(2))

| | Page |
|------------------------------------------------------------------------------------------------------|-------------|
| Report of Independent Registered Public Accounting Firm | 7 |
| Consolidated balance sheets as of December 31, 2007 and 2006 | 8 |
| Consolidated statements of income for the years ended December 31, 2007, 2006 and 2005 | 9 |
| Consolidated statements of shareholders' equity for the years ended December 31, 2007, 2006 and 2005 | 10 |
| Consolidated statements of cash flows for the years ended December 31, 2007, 2006 and 2005 | 11 |
| Notes to consolidated financial statements | 13 |
| Schedule: | |
| III Real estate and accumulated depreciation | 29 |

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
PS Business Parks, Inc.

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PS Business Parks, Inc. at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PS Business Parks, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 26, 2008

**PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS**

| | December 31, | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------|
| | 2007 | 2006 |
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 35,041 | \$ 67,017 |
| Real estate facilities, at cost: | | |
| Land | 494,849 | 439,777 |
| Buildings and equipment | 1,484,049 | 1,353,442 |
| | 1,978,898 | 1,793,219 |
| Accumulated depreciation | (539,857) | (441,336) |
| | 1,439,041 | 1,351,883 |
| Land held for development | 7,869 | 9,011 |
| | 1,446,910 | 1,360,894 |
| Rent receivable | 2,240 | 2,080 |
| Deferred rent receivable | 21,927 | 21,454 |
| Other assets | 10,465 | 12,154 |
| Total assets | \$ 1,516,583 | \$ 1,463,599 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Accrued and other liabilities | \$ 51,058 | \$ 43,129 |
| Preferred stock called for redemption | | 50,000 |
| Mortgage notes payable | 60,725 | 67,048 |
| Total liabilities | 111,783 | 160,177 |
| Minority interests: | | |
| Preferred units | 94,750 | 82,750 |
| Common units | 154,470 | 165,469 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 28,650 and 22,900 shares issued and outstanding at December 31, 2007 and 2006, respectively | 716,250 | 572,500 |
| Common stock, \$0.01 par value, 100,000,000 shares authorized, 20,777,219 and 21,311,005 shares issued and outstanding at December 31, 2007 and 2006, respectively | 207 | 213 |
| Paid-in capital | 371,267 | 398,048 |
| Cumulative net income | 552,069 | 483,403 |
| Cumulative distributions | (484,213) | (398,961) |
| Total shareholders' equity | 1,155,580 | 1,055,203 |

| | | |
|--------------------------------------------|--------------|--------------|
| Total liabilities and shareholders' equity | \$ 1,516,583 | \$ 1,463,599 |
|--------------------------------------------|--------------|--------------|

See accompanying notes.

8

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME

| | For the Years Ended December 31, | | |
|----------------------------------------------------------------------------------|--------------------------------------------------|-----------------|-----------------|
| | 2007 | 2006 | 2005 |
| | (In thousands, except per share data) | | |
| Revenues: | | | |
| Rental income | \$ 270,775 | \$ 242,214 | \$ 219,604 |
| Facility management fees | 724 | 625 | 579 |
| Total operating revenues | 271,499 | 242,839 | 220,183 |
| Expenses: | | | |
| Cost of operations | 84,360 | 74,671 | 65,712 |
| Depreciation and amortization | 98,521 | 86,216 | 76,178 |
| General and administrative | 7,917 | 7,046 | 5,843 |
| Total operating expenses | 190,798 | 167,933 | 147,733 |
| Other income and expenses: | | | |
| Interest and other income | 5,104 | 6,874 | 4,888 |
| Interest expense | (4,130) | (2,575) | (1,330) |
| Total other income and expenses | 974 | 4,299 | 3,558 |
| Asset impairment due to casualty loss | | | 72 |
| Income from continuing operations before minority interests | 81,675 | 79,205 | 75,936 |
| Minority interests in continuing operations: | | | |
| Minority interest in income preferred units: | | | |
| Distributions to preferred unit holders | (6,854) | (9,789) | (10,350) |
| Redemption of preferred operating partnership units | | (1,366) | (301) |
| Minority interest in income common units | (6,155) | (5,113) | (5,611) |
| Total minority interests in continuing operations | (13,009) | (16,268) | (16,262) |
| Income from continuing operations | 68,666 | 62,937 | 59,674 |
| Discontinued operations: | | | |
| Income (loss) from discontinued operations | | (125) | 2,769 |
| Gain on disposition of real estate | | 2,328 | 18,109 |
| Minority interest in income attributable to discontinued operations common units | | (560) | (5,258) |
| Income from discontinued operations | | 1,643 | 15,620 |
| Net Income | 68,666 | 64,580 | 75,294 |
| Net income allocable to preferred shareholders: | | | |
| Preferred stock distributions: | | | |
| Preferred stock distributions | 50,937 | 44,553 | 43,011 |
| Redemptions of preferred stock | | 3,380 | |

Edgar Filing: PS BUSINESS PARKS INC/CA - Form 10-K/A

| | | | |
|---------------------------------------------|-----------|-----------|-----------|
| Total preferred stock distributions | 50,937 | 47,933 | 43,011 |
| Net income allocable to common shareholders | \$ 17,729 | \$ 16,647 | \$ 32,283 |
| Net income per common share basic: | | | |
| Continuing operations | \$ 0.83 | \$ 0.70 | \$ 0.76 |
| Discontinued operations | \$ | \$ 0.08 | \$ 0.72 |
| Net income | \$ 0.83 | \$ 0.78 | \$ 1.48 |
| Net income per common share diluted: | | | |
| Continuing operations | \$ 0.82 | \$ 0.69 | \$ 0.76 |
| Discontinued operations | \$ | \$ 0.08 | \$ 0.71 |
| Net income | \$ 0.82 | \$ 0.77 | \$ 1.47 |
| Weighted average common shares outstanding: | | | |
| Basic | 21,313 | 21,335 | 21,826 |
| Diluted | 21,634 | 21,646 | 22,018 |

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

| | Preferred Stock | | Common Stock | | Paid-in Capital | Cumulative | Cumulative Distributions | Shareholders Equity |
|-------------------------------------------------------------------|-----------------------------------|------------|--------------|--------|--------------------|---------------|-----------------------------|------------------------|
| | Shares | Amount | Shares | Amount | | Net Income | | |
| | (In thousands, except share data) | | | | | | | |
| Balances at December 31, 2004 | 20,434 | \$ 510,850 | 21,839,667 | \$ 218 | \$ 420,351 | \$ 343,529 | \$ (257,984) | \$ 1,016,964 |
| Issuance of preferred stock, net of costs | 3,300 | 82,500 | | | (2,873) | | | 79,627 |
| Repurchase of common stock | | | (361,400) | (4) | (16,628) | | | (16,632) |
| Exercise of stock options | | | 70,364 | 1 | 1,936 | | | 1,937 |
| Stock compensation | | | 11,962 | | 2,588 | | | 2,588 |
| Net income | | | | | | 75,294 | | 75,294 |
| Distributions: Preferred stock | | | | | | | (43,011) | (43,011) |
| Common stock | | | | | | | (25,315) | (25,315) |
| Adjustment to minority interests underlying ownership | | | | | 2,006 | | | 2,006 |
| Balances at December 31, 2005 | 23,734 | 593,350 | 21,560,593 | 215 | 407,380 | 418,823 | (326,310) | 1,093,458 |
| Issuance of preferred stock, net of costs | 3,800 | 95,000 | | | (2,798) | | | 92,202 |
| Redemption of preferred stock | (2,634) | (65,850) | | | 1,658 | | (1,658) | (65,850) |
| Preferred stock called for redemption | (2,000) | (50,000) | | | 1,722 | | (1,722) | (50,000) |
| Repurchase of common stock | | | (309,100) | (3) | (16,114) | | | (16,117) |
| Exercise of stock options | | | 37,900 | 1 | 1,366 | | | 1,367 |
| Stock compensation | | | 21,612 | | 2,286 | | | 2,286 |
| Net income | | | | | | 64,580 | | 64,580 |
| Distributions: Preferred stock | | | | | | | (44,553) | (44,553) |

| | | | | | | | | |
|-------------------------------------------------------|--------|------------|------------|--------|------------|------------|--------------|--------------|
| Common stock | | | | | | | (24,718) | (24,718) |
| Adjustment to minority interests underlying ownership | | | | | 2,548 | | | 2,548 |
| Balances at December 31, 2006 | 22,900 | 572,500 | 21,311,005 | 213 | 398,048 | 483,403 | (398,961) | 1,055,203 |
| Issuance of preferred stock, net of costs | 5,750 | 143,750 | | | (4,183) | | | 139,567 |
| Repurchase of common stock | | | (601,042) | (6) | (31,847) | | | (31,853) |
| Exercise of stock options | | | 43,384 | | 1,468 | | | 1,468 |
| Stock compensation | | | 23,872 | | 2,813 | | | 2,813 |
| Shelf registration | | | | | (88) | | | (88) |
| Net income | | | | | | 68,666 | | 68,666 |
| Distributions: | | | | | | | | |
| Preferred stock | | | | | | | (50,937) | (50,937) |
| Common stock | | | | | | | (34,315) | (34,315) |
| Adjustment to minority interests underlying ownership | | | | | 5,056 | | | 5,056 |
| Balances at December 31, 2007 | 28,650 | \$ 716,250 | 20,777,219 | \$ 207 | \$ 371,267 | \$ 552,069 | \$ (484,213) | \$ 1,155,580 |

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Years Ended December 31, | | |
|-----------------------------------------------------------------------------------|-----------------------------------------|---------------|--------------|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 68,666 | \$ 64,580 | \$ 75,294 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | 98,521 | 86,243 | 77,420 |
| In-place lease adjustment | (102) | 232 | 155 |
| Lease incentives net of tenant improvement reimbursements. | (33) | 440 | 144 |
| Amortization of mortgage premium | (247) | (76) | |
| Minority interest in income | 13,009 | 16,828 | 21,520 |
| Gain on disposition of properties | | (2,328) | (18,109) |
| Impairment of assets from casualty loss | | | 72 |
| Stock compensation expense | 2,813 | 2,845 | 1,060 |
| Increase in receivables and other assets | (1,015) | (3,741) | (5,004) |
| Increase (decrease) in accrued and other liabilities | 2,482 | 1,111 | (3,724) |
| Total adjustments | 115,428 | 101,554 | 73,534 |
| Net cash provided by operating activities | 184,094 | 166,134 | 148,828 |
| Cash flows from investing activities: | | | |
| Capital improvements to real estate facilities | (42,601) | (39,227) | (40,340) |
| Acquisition of real estate facilities | (138,936) | (138,973) | (20,073) |
| Proceeds from disposition of real estate | | 7,714 | 84,802 |
| Insurance proceeds from casualty loss | 1,349 | 500 | |
| Net cash (used in) provided by investing activities | (180,188) | (169,986) | 24,389 |
| Cash flows from financing activities: | | | |
| Principal payments on mortgage notes payable | (1,126) | (762) | (472) |
| Repayment of mortgage note payable | (4,950) | | |
| Net proceeds from the issuance of preferred stock | 139,567 | 92,448 | 79,627 |
| Net proceeds from the issuance of preferred units | 11,665 | | 19,465 |
| Exercise of stock options | 1,468 | 1,367 | 1,937 |
| Shelf registration costs | (88) | | |
| Repurchase of common stock | (28,551) | (16,117) | (14,465) |
| Redemption of preferred units | | (53,000) | (12,000) |
| Redemption of preferred stock | (50,000) | (65,850) | |
| Distributions paid to preferred shareholders | (50,937) | (44,799) | (43,011) |
| Distributions paid to minority interests preferred units | (6,854) | (9,789) | (10,350) |
| Distributions paid to common shareholders | (34,315) | (24,718) | (25,315) |
| Distributions paid to minority interests common units | (11,761) | (8,474) | (8,474) |
| Net cash used in financing activities | (35,882) | (129,694) | (13,058) |

| | | | |
|----------------------------------------------------------|-----------|-----------|------------|
| Net (decrease) increase in cash and cash equivalents | (31,976) | (133,546) | 160,159 |
| Cash and cash equivalents at the beginning of the period | 67,017 | 200,563 | 40,404 |
| Cash and cash equivalents at the end of the period | \$ 35,041 | \$ 67,017 | \$ 200,563 |
| Supplemental disclosures: | | | |
| Interest paid, net of interest capitalized | \$ 4,145 | \$ 2,575 | \$ 1,330 |

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Years Ended December 31, | | |
|------------------------------------------------------------------------------|-----------------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Supplemental schedule of non cash investing and financing activities: | | | |
| Adjustment to minority interest to underlying ownership: | | | |
| Minority interest common units | \$ (5,391) | \$ (1,182) | \$ (2,240) |
| Paid-in capital | \$ 5,391 | \$ 1,182 | \$ 2,240 |
| Effect of EITF Topic D-42 Cumulative distributions | \$ | \$ (3,380) | \$ |
| Minority interest common units | \$ | \$ (1,366) | \$ (301) |
| Paid-in capital | \$ | \$ 4,746 | \$ 301 |
| Mortgage note payable assumed in property acquisition: | | | |
| Real estate facilities | \$ | \$ (41,993) | \$ (14,998) |
| Mortgage notes payable | \$ | \$ 41,993 | \$ 14,998 |
| Accrued lease inducements: | | | |
| Other assets | \$ | \$ | \$ (1,985) |
| Accrued and other liabilities | \$ | \$ | \$ 1,985 |
| Accrued stock repurchase: | | | |
| Paid-in capital | \$ (3,302) | \$ | \$ (2,167) |
| Accrued and other liabilities | \$ 3,302 | \$ | \$ 2,167 |
| Preferred stock called for redemption: | | | |
| Preferred stock | \$ | \$ (50,000) | \$ |
| Preferred stock called for redemption | \$ | \$ 50,000 | \$ |

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

1. Organization and description of business

Organization

PS Business Parks, Inc. (PSB) was incorporated in the state of California in 1990. As of December 31, 2007, PSB owned 74.0% of the common partnership units of PS Business Parks, L.P. (the Operating Partnership or OP). The remaining common partnership units were 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.

Description of business

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 December 31, 2007, the Company owned and operated approximately 19.6 million rentable square feet of commercial space located in eight states. The Company also manages approximately 1.4 million rentable square feet on behalf of PS and its affiliated entities.

Any reference to the number of properties or square footage are unaudited and outside the scope of our independent registered public accounting firm s review of our 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 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.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (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 estimates.

Allowance for doubtful accounts

The Company monitors the collectibility 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 required rent payments to us. 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 \$300,000 at December 31, 2007 and 2006.

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 short-term investments, including commercial paper, 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. Leasing costs in excess of \$1,000 for leases with terms greater than two years are capitalized and depreciated over their estimated useful lives. Leasing costs for leases of less than two years or less than \$1,000 are expensed as incurred.

Interest cost and property taxes incurred during the period of construction of real estate facilities are capitalized. The Company did not capitalize any interest expense or property taxes during the years ended December 31, 2007, 2006 and 2005.

Properties held for disposition

The Company accounts for properties held for disposition in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. An asset is classified as an asset held for disposition when it meets the requirements of SFAS No. 144, which include, among other criteria, the approval of the sale of the asset, the marketing of the asset for sale and the expectation of the Company that the sale will likely occur within the next 12 months. Upon classification of an asset as held for disposition, the net book value of the asset is included on the balance sheet as properties held for disposition, depreciation of the asset is ceased and the operating results of the asset are included in discontinued operations.

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 sheet) are amortized, net, to rental income over the remaining non-cancelable terms of the respective leases. The Company recorded net amortization of \$102,000, \$232,000 and \$155,000 of intangible assets and liabilities resulting from the above and below market lease values during the years ended December 31, 2007, 2006 and 2005, respectively. As of December 31, 2007, the value of in-place leases resulted in a net intangible asset of \$419,000, net of \$773,000 of accumulated amortization, and a net intangible liability of \$1.0 million, net of \$340,000 of accumulated amortization. As of December 31, 2006, the value of in-place leases resulted in a net intangible asset of \$656,000, net of \$535,000 of accumulated amortization.

Evaluation of asset impairment

The Company evaluates its assets used in operations by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying value. When indicators of impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on discounting its estimated future cash flows. In addition, the Company evaluates its assets held for disposition for impairment. Assets held for disposition are reported at the lower of their carrying value or fair value, less cost of disposition. At December 31, 2007, the Company did not consider any assets to be impaired.

Asset impairment due to casualty loss

It is the Company's policy to record as a casualty loss or gain, in the period the casualty occurs, the differential between (a) the book value of assets destroyed and (b) any insurance proceeds that the Company expects to receive in accordance with its insurance contracts. Potential proceeds from insurance that are subject to any uncertainties, such as interpretation of deductible provisions of the governing agreements, the estimation of costs of restoration, or other such items, are treated as contingent proceeds in accordance with SFAS No. 5, Accounting for Contingencies, and not recorded until the uncertainties are satisfied.

For the year ended December 31, 2007, no material casualty losses were recorded.

For the year ended December 31, 2006, one of the Company's real estate assets located in Southern California was damaged as a result of a fire. The Company estimated that the costs to restore this facility would be approximately \$392,000. The Company has third-party insurance, subject to certain deductibles, that covers restoration of physical damage and the loss of income due to the physical damage incurred. The Company's insurers paid all of the costs associated with the fire less the applicable deductible. The cost to restore the facility was within the Company's estimate. The net book value of the assets destroyed was approximately \$266,000. In addition, the Company incurred approximately \$126,000 of non-capitalized expense in 2006. Accordingly, no casualty loss was recorded for the year ended December 31, 2006.

For the year ended December 31, 2005, several of the Company's real estate assets located in South Florida were damaged as a result of a series of hurricanes. The Company estimated that the costs to restore these facilities would be approximately \$2.3 million. The Company has third-party insurance, subject to certain deductibles, that covers restoration of physical damage and the loss of income due to the physical damage incurred. The Company's insurers paid approximately \$1.6 million of the physical damage. The cost to restore the facility was within the Company's estimate. The net book value of the assets destroyed was approximately \$1.1 million. In addition, the Company incurred approximately \$510,000 of non-capitalized expense incurred in 2005. Accordingly, The Company has recorded a casualty loss of \$72,000 for the year ended December 31, 2005.

Stock-based compensation

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Effective January 1, 2006, the Company adopted SFAS No. 123(R) using the modified prospective method. Due to the Company adopting the Fair Value Method of accounting for stock options effective January 1, 2002, the adoption of SFAS No. 123(R) did not have a material impact on the results of operations or the financial position of the Company. See Note 10.

Revenue and expense recognition

Revenue is recognized in accordance with Staff Accounting Bulletin No. 104 of the Securities and Exchange Commission, Revenue Recognition in Financial Statements (SAB 104). SAB 104 requires that four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services rendered; the fee is fixed and determinable; and collectibility is reasonably assured. All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Straight-line rent is recognized for all tenants with contractual increases in rent that are not included on the Company's credit watch list. Deferred rent receivable represents rental revenue recognized on a straight-line basis in excess of billed rents. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as revenues in the period the applicable costs are incurred.

Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions) are capitalized and amortized over the lease period.

Gains from sales of real estate

The Company recognizes gains from sales of real estate at the time of sale using the full accrual method, provided that various criteria related to the terms of the transactions and any subsequent involvement by the Company with the properties sold are met. If the criteria are not met, the Company defers the gains and recognizes them when the criteria are met or using the installment or cost recovery methods as appropriate under the circumstances.

General and administrative expense

General and administrative expense includes executive compensation, office expense, professional fees, state income taxes, cost of acquisition personnel and other such administrative items.

Income taxes

The Company qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, the Company is not subject to federal income tax to the extent that it distributes its taxable income to its shareholders. A REIT must distribute at least 90% of its taxable income each year. In addition, REITs are subject to a number of organizational and operating requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) based on its taxable income using corporate income tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. The Company believes it met all organization and operating requirements to maintain its REIT status during 2007, 2006 and 2005 and intends to continue to meet such requirements. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of FASB Statement No. 109, Accounting for Income Taxes, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The adoption of FIN 48 effective January 1, 2007 did not have a material effect on the Company.

Accounting for preferred equity issuance costs

In accordance with Emerging Issues Task Force (EITF) Topic D-42, the Company records its issuance costs as a reduction to paid-in capital on its balance sheet at the time the preferred securities are issued and reflects the carrying value of the preferred stock at the stated value. The Company records issuance costs as non-cash preferred equity distributions at the time it notifies the holders of preferred stock or units of its intent to redeem such shares or units.

Net income per common share

Per share amounts are computed using the weighted average common shares outstanding. Diluted weighted average common shares outstanding includes the dilutive effect of stock options and restricted stock units under the treasury stock method. Basic weighted average common shares outstanding excludes such effect. Earnings per share has been calculated as follows for the years ended December 31, *(in thousands, except per share data)*:

| | 2007 | 2006 | 2005 |
|-----------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| Net income allocable to common shareholders | \$ 17,729 | \$ 16,647 | \$ 32,283 |
| Weighted average common shares outstanding: | | | |
| Basic weighted average common shares outstanding | 21,313 | 21,335 | 21,826 |
| Net effect of dilutive stock compensation based on treasury stock method using average market price | 321 | 311 | 192 |
| Diluted weighted average common shares outstanding | 21,634 | 21,646 | 22,018 |
| Net income per common share Basic | \$ 0.83 | \$ 0.78 | \$ 1.48 |
| Net income per common share Diluted | \$ 0.82 | \$ 0.77 | \$ 1.47 |

Options to purchase approximately 32,000, 20,000 and 80,000 shares for the years ended December 31 2007, 2006 and 2005, respectively, were not included in the computation of diluted net income per share because such options were considered anti-dilutive.

Segment reporting

The Company views its operations as one segment.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 2006 and 2005 in order to conform to the 2007 presentation.

3. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2007, 2006 and 2005 is as follows (*in thousands*):

| | Land | Buildings and Equipment | Accumulated Depreciation | Total |
|------------------------------------------------|-------------|----------------------------------------|-------------------------------------|--------------|
| Balances at December 31, 2004 | \$ 368,388 | \$ 1,132,405 | \$ (279,076) | \$ 1,221,717 |
| Acquisition of real estate | 15,129 | 20,054 | | 35,183 |
| Disposition of real estate | | (1,526) | 1,135 | (391) |
| Asset impairment due to casualty loss | | (1,135) | | (1,135) |
| Capital improvements, net | | 40,132 | | 40,132 |
| Depreciation expense | | | (77,420) | (77,420) |
| Transfer to properties held for Disposition | (209) | (115) | 133 | (191) |
| Balances at December 31, 2005 | 383,308 | 1,189,815 | (355,228) | 1,217,895 |
| Acquisition of real estate | 56,469 | 124,774 | | 181,243 |
| Disposition of real estate | | | 27 | 27 |
| Asset impairment due to casualty loss | | (374) | 108 | (266) |
| Capital improvements, net | | 39,227 | | 39,227 |
| Depreciation expense | | | (86,243) | (86,243) |
| Balances at December 31, 2006 | 439,777 | 1,353,442 | (441,336) | 1,351,883 |
| Acquisition of real estate | 53,930 | 88,006 | | 141,936 |
| Capital improvements, net | | 42,601 | | 42,601 |
| Depreciation expense | | | (98,521) | (98,521) |
| Transfer from land held for development | 1,142 | | | 1,142 |
| Balances at December 31, 2007 | \$ 494,849 | \$ 1,484,049 | \$ (539,857) | \$ 1,439,041 |

The unaudited basis of real estate facilities for federal income tax purposes was approximately \$1.4 billion at December 31, 2007. The Company had approximately 7.2% of its properties, in terms of net book value, encumbered by mortgage debt at December 31, 2007.

On February 16, 2007, the Company acquired Overlake Business Center, a 493,000 square foot multi-tenant office and flex business park located in Redmond, Washington, for \$76.0 million. On March 27, 2007, the Company acquired Commerce Campus, a 252,000 square foot multi-tenant office and flex business park located in Santa Clara, California, for \$39.2 million. On August 3, 2007, the Company acquired Fair Oaks Corporate Center, a 125,000 square foot multi-tenant office park located in Fairfax, Virginia, for \$25.4 million.

On February 8, 2006, the Company acquired WesTech Business Park, a 366,000 square foot office and flex park in Silver Spring, Maryland, for \$69.3 million. On June 14, 2006, the Company acquired four multi-tenant flex buildings, aggregating 88,800 square feet, located in Signal Hill, California, for \$10.7 million. On June 20, 2006, the Company acquired Beaumont at Lafayette, a 107,300 square foot multi-tenant flex park in Chantilly, Virginia, for \$15.8 million. On June 29, 2006, the Company acquired Meadows Corporate Park, a 165,000 square foot multi-tenant office park in Silver Spring, Maryland, for \$29.9 million. In connection with the acquisition, the Company assumed a \$16.8 million mortgage which bears interest at a fixed rate of 7.20% through November, 2011 at which time it can be prepaid without penalty. On October 27, 2006, the Company acquired Rogers Avenue, a multi-tenant industrial and flex park, aggregating 66,500 square feet, located in San Jose, California, for \$8.4 million. On December 8, 2006, the Company

acquired Boca Commerce Park and Wellington Commerce Park, two multi-tenant flex parks, aggregating 398,000 square feet, located in Palm Beach County, Florida, for a combined price of \$46.2 million. In addition, in connection with the Palm Beach County purchases, the Company assumed three mortgages with a combined total of \$23.8 million with a weighted average fixed interest rate of 5.84%.

On October 25, 2005, the Company acquired a 233,000 square foot multi-tenant flex space in San Diego, California, for \$35.1 million. In connection with the acquisition, the Company assumed a \$15.0 million mortgage which bears interest at a fixed rate of 5.73%.

The following table summarizes the assets and liabilities acquired during the years ended December 31, (*in thousands*):

| | 2007 | 2006 | 2005 |
|-----------------------------------------------|-------------|-------------|-------------|
| Land | \$ 53,930 | \$ 56,469 | \$ 15,129 |
| Buildings and equipment | 88,006 | 124,774 | 20,054 |
| In-place leases | (1,357) | 433 | |
| Total purchase price | 140,579 | 181,676 | 35,183 |
| Mortgages assumed | | (41,993) | (14,998) |
| Net operating assets and liabilities acquired | (1,643) | (710) | (112) |
| Total cash paid | \$ 138,936 | \$ 138,973 | \$ 20,073 |

In accordance with SFAS No. 141, *Business Combinations*, the purchase price of acquired properties is allocated to land, buildings and equipment and identified tangible and intangible assets and liabilities associated with in-place leases (including tenant improvements, unamortized leasing commissions, value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any) based on their respective estimated fair values.

The fair value of the tangible assets of the acquired properties considers the value of the properties as if vacant as of the acquisition date. Management must make significant assumptions in determining the value of assets and liabilities acquired. Using different assumptions in the allocation of the purchase cost of the acquired properties would affect the timing of recognition of the related revenue and expenses. Amounts allocated to land are derived from comparable sales of land within the same region. Amounts allocated to buildings and improvements, tenant improvements and unamortized leasing commissions are based on current market replacement costs and other market rate information. The amount allocated to acquired in-place leases is determined based on management's assessment of current market conditions and the estimated lease-up periods for the respective spaces.

In the first quarter of 2006, the Company sold three units aggregating 25,300 square feet at Miami International Commerce Center (*MICC*) for a gross sales price of \$2.9 million, resulting in a gain of \$711,000. In May, 2006, the Company sold a 30,500 square foot building located in Beaverton, Oregon, for a gross sales price of \$4.4 million, resulting in a gain of \$1.5 million. Also, in May, 2006, the Company sold a 7,100 square foot unit at *MICC* for a gross sales price of \$815,000, resulting in a gain of \$154,000.

Included in the consolidated statements of income for the year ended December 31, 2006 are cost of operations and depreciation of \$98,000 and \$27,000, respectively, reported as discontinued operations for properties sold.

In January, 2005, the Company closed on the sale of 8.2 acres of land within the Cornell Oaks project in Beaverton, Oregon. The sales price for the land was \$3.6 million, resulting in a gain of \$1.8 million. During the second quarter, the Company closed on the sale of a 7,100 square foot unit at *MICC* for \$750,000, resulting in a gain of \$137,000. On February 15, 2005, the Company sold a 56,000 square foot retail center located at *MICC*. The sales price was \$12.2 million, resulting in a gain of \$967,000. In addition, on January 20, 2005, the Company closed on the sale of a 7,100 square foot unit at *MICC* for \$740,000, resulting in a gain of \$142,000. During the third quarter, the Company completed the sale of Woodside Corporate Park, located in Beaverton, Oregon. The park consists of 13 buildings comprising 574,000 square feet and a 3.3 acre parcel of land. Net proceeds from the sale, after transaction costs, were \$64.5 million. In connection with the sale, the Company recognized a gain of \$12.5 million. During the fourth quarter, the Company also sold four units at *MICC* aggregating 30,200 square feet and a 13,000 square foot parcel of land with a combined gross sales price of \$4.3 million. In connection with the sales, the Company recognized gains of \$1.6 million.

The Company realized a gain of \$1.0 million from the November 2004 sale of Largo 95 in Largo, Maryland. The gain was previously deferred due to the Company's obligation to complete certain leasing related items satisfied during the second quarter of 2005.

Included in the consolidated statements of income for the year ended December 31, 2005 are rental income of \$5.8 million offset with cost of operations and depreciation of \$1.8 million and \$1.2 million, respectively, reported as discontinued operations for properties sold or held for disposition. Included in rental income and cost of operations are certain tenant reimbursements for the tenants pro rata share of specified operating expenses of \$755,000.

4. Leasing activity

The Company leases space in its real estate facilities to tenants primarily under non-cancelable leases generally ranging from one to 10 years. Future minimum rental revenues excluding recovery of operating expenses as of December 31, 2007 under these leases are as follows (*in thousands*):

| | |
|------------|----------------|
| 2008 | \$ 211,205 |
| 2009 | 163,289 |
| 2010 | 117,302 |
| 2011 | 79,229 |
| 2012 | 50,824 |
| Thereafter | 76,118 |
| Total | \$ 697,967 |

In addition to minimum rental payments, certain tenants reimburse the Company for their pro rata share of specified operating expenses. Such reimbursements amounted to \$45.8 million, \$32.9 million and \$25.5 million, for the years ended December 31, 2007, 2006 and 2005, respectively. These amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for approximately 4.8% of the leased square footage are subject to termination options which include leases for approximately 2.8% of total leased square footage having termination options exercisable through December 31, 2008 (unaudited). In general, these leases provide for termination payments should the termination options be exercised. The above table is prepared assuming such options are not exercised.

5. Bank loans

The Company has a line of credit (the Credit Facility) with Wells Fargo Bank. The Credit Facility has a borrowing limit of \$100.0 million and matures on August 1, 2008. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate (LIBOR) plus 0.50% to LIBOR plus 1.20% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 0.65%). In addition, the Company is required to pay an annual commitment fee ranging from 0.15% to 0.30% of the borrowing limit (currently 0.20%). In connection with the modification of the Credit Facility, the Company paid a fee of \$450,000, which is being amortized over the life of the Credit Facility. The Company had no balance outstanding on its Credit Facility at December 31, 2007 and 2006.

The Credit Facility requires the Company to meet certain covenants including (i) maintain a balance sheet leverage ratio (as defined) of less than 0.45 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.00 and 1.75 to 1.00, respectively, (iii) maintain a minimum tangible net worth (as defined) and (iv) limit distributions to 95% of funds from operations (as defined) for any four consecutive quarters. In addition, the Company is limited in its ability to incur additional borrowings or sell assets (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt; the Company did not have any unsecured recourse debt at December 31, 2007). The Company was in compliance with the covenants of the Credit Facility at December 31, 2007.

6. Mortgage notes payableMortgage notes consist of the following (*in thousands*):

| | December 31, 2007 | December 31, 2006 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| 7.29% mortgage note, secured by one commercial property with a net book value of \$6.4 million, principal and interest payable monthly, due February, 2009 | \$ 5,323 | \$ 5,490 |
| 5.73% mortgage note, secured by one commercial property with a net book value of \$30.4 million, principal and interest payable monthly, due March, 2013 | 14,510 | 14,743 |
| 6.15% mortgage note, secured by one commercial property with a net book value of \$31.0 million, principal and interest payable monthly, due November, 2031 (1) | 17,348 | 17,759 |
| 5.52% mortgage note, secured by one commercial property with a net book value of \$15.1 million, principal and interest payable monthly, due May, 2013 | 10,274 | 10,483 |
| 5.68% mortgage note, secured by one commercial property with a net book value of \$17.9 million, principal and interest payable monthly, due May, 2013 | 10,281 | 10,486 |
| 5.61% mortgage note, secured by one commercial property with a net book value of \$3.4 million, principal and interest payable monthly, due January, 2011 (2) | 2,989 | 3,085 |
| 8.19% mortgage note, secured by one commercial property with a net book value of \$10.7 million, principal and interest payable monthly, repaid March, 2007 | | 5,002 |
| Total | \$ 60,725 | \$ 67,048 |

- (1) The mortgage note has a principal balance of \$16.5 million and a stated interest rate of 7.20%. Based on the fair market value at the time of assumption, a mortgage premium was computed based on an effective interest rate of 6.15%. The

unamortized premiums were \$834,000 and \$1.0 million as of December 31, 2007 and 2006, respectively. This mortgage is repayable without penalty beginning November, 2011.

- (2) The mortgage note has a principal balance of \$2.8 million and a stated interest rate of 7.61%. Based on the fair market value at the time of assumption, a mortgage premium was computed based on an effective interest rate of 5.61%. The unamortized premiums were \$198,000 and \$256,000 as of December 31, 2007 and 2006, respectively.

At December 31, 2007, mortgage notes payable have a weighted average interest rate of 5.94% and a weighted average maturity of 4.5 years with principal payments as follows (*in thousands*):

| | |
|------------|-----------|
| 2008 | \$ 1,396 |
| 2009 | 6,442 |
| 2010 | 1,376 |
| 2011 | 19,428 |
| 2012 | 855 |
| Thereafter | 31,228 |
| Total | \$ 60,725 |

7. Minority interests

Common partnership units

The Company presents the accounts of PSB and the Operating Partnership on a consolidated basis. Ownership interests in the Operating Partnership that can be redeemed for common stock, other than PSB's interest, are classified as minority interest common units in the consolidated financial statements. Minority interest in income common units consists of the minority interests' share of the consolidated operating results after allocation to preferred units and shares. Beginning one year from the date of admission as a limited partner (common units) and subject to certain limitations described below, each limited partner other than PSB has the right to require the redemption of its partnership interest.

A limited partner (common units) that exercises its redemption right will receive cash from the Operating Partnership in an amount equal to the market value (as defined in the Operating Partnership Agreement) of the partnership interests redeemed. In lieu of the Operating Partnership redeeming the partner for cash, PSB, as general partner, has the right to elect to acquire the partnership interest directly from a limited partner exercising its redemption right, in exchange for cash in the amount specified above or by issuance of one share of PSB common stock for each unit of limited partnership interest redeemed.

A limited partner (common units) cannot exercise its redemption right if delivery of shares of PSB common stock would be prohibited under the applicable articles of incorporation, or if the general partner believes that there is a risk that delivery of shares of common stock would cause the general partner to no longer qualify as a REIT, would cause a violation of the applicable securities laws, or would result in the Operating Partnership no longer being treated as a partnership for federal income tax purposes.

At December 31, 2007, there were 7,305,355 common units owned by PS, which are accounted for as minority interests. On a fully converted basis, assuming all 7,305,355 minority interest common units were converted into shares of common stock of PSB at December 31, 2007, the minority interest units would convert into approximately 26.1% of the common shares outstanding. Combined with PS's common stock ownership, on a fully converted basis, PS has a combined ownership of approximately 45.3% of the Company's common equity. At the end of each reporting period, the Company determines the amount of equity (book value of net assets) which is allocable to the minority interest based upon the ownership interest, and an adjustment is made to the minority interest, with a corresponding adjustment to paid-in capital, to reflect the minority interests' equity in the Company.

Preferred partnership units

Through the Operating Partnership, the Company has the following preferred units outstanding as of December 31, 2007 and 2006 (*in thousands*):

| Series | Issuance Date | Earliest Potential Redemption Date | Dividend Rate | December 31, 2007 | | December 31, 2006 | |
|----------|------------------|------------------------------------|---------------|--------------------|-----------|--------------------|-----------|
| | | | | Shares Outstanding | Amount | Shares Outstanding | Amount |
| Series G | October, 2002 | October, 2007 | 7.950% | 800 | \$ 20,000 | 800 | \$ 20,000 |
| Series J | May & June, 2004 | May, 2009 | 7.500% | 1,710 | 42,750 | 1,710 | 42,750 |
| Series N | December, 2005 | December, 2010 | 7.125% | 800 | 20,000 | 800 | 20,000 |
| Series Q | March, 2007 | March, 2012 | 6.550% | 480 | 12,000 | | |
| Total | | | | 3,790 | \$ 94,750 | 3,310 | \$ 82,750 |

During the first quarter of 2007, the Company completed a private placement of \$12.0 million of preferred units through its Operating Partnership. The 6.550% Series Q Cumulative Redeemable Preferred Units are non-callable for five years and have no mandatory redemption.

On September 21, 2006 the Company redeemed 2.1 million units of its 9.250% Series E Cumulative Redeemable Preferred Units for \$53.0 million. In accordance with EITF D-42, the redemptions resulted in a reduction of net income allocable to common shareholders of \$1.4 million for the year ended December 31, 2006, and a corresponding

increase in the allocation of income to minority interests equal to the excess of the redemption amount over the carrying amount of the redeemed securities.

The Operating Partnership has the right to redeem preferred units on or after the fifth anniversary of the applicable issuance date at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. The preferred units are exchangeable for Cumulative Redeemable Preferred Stock of the respective series of PSB on or after the tenth anniversary of the date of issuance at the option of the Operating Partnership or a majority of the holders of the respective preferred units. The Cumulative Redeemable Preferred Stock will have the same distribution rate and par value as the corresponding preferred units and will otherwise have equivalent terms to the other series of preferred stock described in Note 9. As of December 31, 2007 and 2006, the Company had \$2.7 million and \$2.3 million, respectively, of deferred costs in connection with the issuance of preferred units, which the Company will report as additional distributions upon notice of redemption.

8. Related party transactions

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PS and affiliated entities for certain administrative services, which are allocated among PS and its affiliates in accordance with a methodology intended to fairly allocate those costs. These costs totaled \$303,000, \$320,000 and \$335,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

The Operating Partnership manages industrial, office and retail facilities for PS and its affiliated entities. These facilities, all located in the United States, operate under the Public Storage or PS Business Parks names.

Under the property management contracts, the Operating Partnership is compensated based on a percentage of the gross revenues of the facilities managed. Under the supervision of the property owners, the Operating Partnership coordinates rental policies, rent collections, marketing activities, the purchase of equipment and supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, the Operating Partnership assists and advises the property owners in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including property managers and leasing, billing and maintenance personnel.

The property management contract with PS is for a seven year term with the agreement automatically extending for an additional one year period upon each one year anniversary of its commencement (unless cancelled by either party). Either party can give notice of its intent to cancel the agreement upon expiration of its current term. Management fee revenues under these contracts were \$724,000, \$625,000 and \$579,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

In December, 2006, PS began providing property management services for the mini storage component of two assets owned by the Company. These mini storage facilities, located in Palm Beach County, Florida, operate under the Public Storage name.

Under the property management contracts, PS is compensated based on a percentage of the gross revenues of the facilities managed. Under the supervision of the Company, PS coordinates rental policies, rent collections, marketing activities, the purchase of equipment and supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, PS assists and advises the Company in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including on-site managers, assistant managers and associate managers.

Both the Company and PS can cancel the property management contract upon 60 days notice. Management fee expense under the contract was approximately \$47,000 for the year ended December 31, 2007.

The Company has amounts due from PS of \$717,000 and \$871,000 for these contracts, as well as for certain operating expenses, for the years ended December 31, 2007 and 2006, respectively.

9. Shareholders equity*Preferred stock*

As of December 31, 2007 and December 31, 2006, the Company had the following series of preferred stock outstanding (*in thousands, except share data*):

| Series | Issuance Date | Earliest Potential Redemption Date | Dividend Rate | December 31, 2007 | | December 31, 2006 | |
|----------|-------------------------|------------------------------------|---------------|--------------------|------------|--------------------|------------|
| | | | | Shares Outstanding | Amount | Shares Outstanding | Amount |
| Series H | January & October, 2004 | January, 2009 | 7.000% | 8,200 | \$ 205,000 | 8,200 | \$ 205,000 |
| Series I | April, 2004 | April, 2009 | 6.875% | 3,000 | 75,000 | 3,000 | 75,000 |
| Series K | June, 2004 | June, 2009 | 7.950% | 2,300 | 57,500 | 2,300 | 57,500 |
| Series L | August, 2004 | August, 2009 | 7.600% | 2,300 | 57,500 | 2,300 | 57,500 |
| Series M | May, 2005 | May, 2010 | 7.200% | 3,300 | 82,500 | 3,300 | 82,500 |
| Series O | June & August, 2006 | June, 2011 | 7.375% | 3,800 | 95,000 | 3,800 | 95,000 |
| Series P | January, 2007 | January, 2012 | 6.700% | 5,750 | 143,750 | | |
| Series F | January, 2002 | January, 2007 | 8.750% | | | 2,000 | 50,000 |
| Total | | | | 28,650 | \$ 716,250 | 24,900 | \$ 622,500 |

On January 29, 2007, the Company redeemed 2.0 million depositary shares, each representing 1/1,000 of a share of 8.750% Cumulative Preferred Stock, Series F, for \$50.0 million. In accordance with EITF Topic D-42, the Company reported the excess of the redemption amount over the carrying amount of \$1.7 million as a reduction of net income allocable to common shareholders for the year ended December 31, 2006 as a result of the Company notifying the holders of the redemption during the fourth quarter of 2006.

On January 17, 2007, the Company issued 5.8 million depositary shares, each representing 1/1,000 of a share of the 6.700% Cumulative Preferred Stock, Series P, at \$25.00 per depositary share, for gross proceeds of \$143.8 million.

On June 16, 2006, the Company issued 3.0 million depositary shares, each representing 1/1,000 of a share of the 7.375% Cumulative Preferred Stock, Series O, at \$25.00 per depositary share. On August 16, 2006 the Company issued an additional 800,000 depositary shares each representing 1/1,000 of a share of the 7.375% Cumulative Preferred Stock, Series O, at \$25.00 per depositary share.

On May 10, 2006, the Company redeemed 2.6 million depositary shares of its 9.500% Cumulative Preferred Stock, Series D for \$65.9 million. In accordance with EITF Topic D-42, the redemption resulted in a reduction of net income allocable to common shareholders of \$1.7 million for the year ended December 31, 2006 equal to the excess of the redemption amount over the carrying amount of the redeemed securities.

The Company paid \$50.9 million, \$44.6 million and \$43.0 million in distributions to its preferred shareholders for the years ended December 31, 2007, 2006 and 2005, respectively.

Holders of the Company's preferred stock will not be entitled to vote on most matters, except under certain conditions. In the event of a cumulative arrearage equal to six quarterly dividends, the holders of the preferred stock will have the right to elect two additional members to serve on the Company's Board of Directors until all events of default have been cured. At December 31, 2007, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the preferred stock is not redeemable prior to the previously noted redemption dates. On or after the respective redemption dates, the respective series of preferred stock will be redeemable, at the option of the Company, in whole or in part, at \$25 per depositary share, plus any accrued and unpaid dividends. As of December 31, 2007 and 2006, the Company had \$23.7 million and \$19.5 million, respectively, of deferred costs in connection with the issuance of preferred stock, which the Company will report as additional non-cash distributions upon notice of its intent to redeem such shares.

Common stock

The Company's Board of Directors previously 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. During the year ended December 31, 2007, the Company repurchased 601,042 shares of common stock at an aggregate cost of \$31.9 million or an average cost per share of \$53.00. During the year ended December 31, 2006, the Company repurchased 309,100 shares of common stock at an aggregate cost of \$16.1 million or an average cost per share of \$52.14. In 2005, The Company repurchased 361,400 shares of common stock at a cost of \$16.6 million or an average cost per share of \$46.02.

Subsequent to December 31, 2007, the Company repurchased 370,042 shares of common stock at an aggregate cost of \$18.3 million or an average cost per share of \$49.52. Since inception of the program, the Company has repurchased an aggregate of 4.3 million shares of common stock at an aggregate cost of \$152.8 million or an average cost per share of \$35.84.

On February 25, 2008, the Board of Directors authorized the repurchase of an additional 2.0 million shares of the Company's common stock on the open market or in privately negotiated transactions. Under existing board authorizations, the Company can repurchase 2.2 million shares.

The Company paid \$34.3 million (\$1.61 per common share), \$24.7 million (\$1.16 per common share) and \$25.3 million (\$1.16 per common share) in distributions to its common shareholders for the years ended December 31, 2007, 2006 and 2005, respectively. The portion of the distributions classified as ordinary income was 97.8%, 100.0% and 95.5% for the years ended December 31, 2007, 2006 and 2005, respectively. The portion of the distributions classified as long-term capital gain income were 2.2% and 4.5% for the years ended December 31, 2007 and 2005, respectively. No portion of the distributions was classified as long-term capital gain income for the year ended December 31, 2006. Percentages in the three preceding sentences are unaudited.

Equity Stock

In addition to common and preferred stock, the Company is authorized to issue 100.0 million shares of Equity Stock. The Articles of Incorporation provide that the Equity Stock may be issued from time to time in one or more series and give the Board of Directors broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock.

10. Stock-based compensation

PSB has a 1997 Stock Option and Incentive Plan (the 1997 Plan) and a 2003 Stock Option and Incentive Plan (the 2003 Plan), each covering 1.5 million shares of PSB's common stock. Under the 1997 Plan and 2003 Plan, PSB has granted non-qualified options to certain directors, officers and key employees to purchase shares of PSB's common stock at a price no less than the fair market value of the common stock at the date of grant. Additionally, under the 1997 Plan and 2003 Plan, PSB has granted restricted stock units to officers and key employees.

Generally, options under the 1997 Plan vest over a three-year period from the date of grant at the rate of one third per year and expire 10 years after the date of grant. Options under the 2003 Plan vest over a five-year period from the date of grant at the rate of one fifth per year and expire 10 years after the date of grant. Restricted stock units granted prior to August, 2002 are subject to a five-year vesting schedule, at 30% in year three, 30% in year four and 40% in year five. Generally, restricted stock units granted subsequent to August, 2002 are subject to a six year vesting schedule, none in year one and 20% for each of the next five years. Certain restricted stock unit grants are subject to a four year vesting schedule, with either cliff vesting after year four or none in year one and 33.3% for each of the next three years.

The weighted average grant date fair value of options granted in the years ended December 31, 2007, 2006 and 2005 were \$12.11 per share, \$11.24 per share and \$6.98 per share, respectively. The Company has calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants for the years ended December 31, 2007, 2006 and 2005, respectively; a dividend yield of 2.6%, 2.1% and 2.6%; expected volatility of 18.2%, 17.9% and 17.6%; expected life of five years; and risk-free interest rates of 4.5%, 4.9% and 4.2%.

The weighted average grant date fair value of restricted stock units granted during the years ended December 31, 2007, 2006 and 2005, were \$67.88, \$55.12 and \$41.43, respectively. The Company has calculated the fair value of each restricted stock unit grant using the market value on the date of grant.

At December 31, 2007, there were a combined total of 1.2 million options and restricted stock units authorized to grant. Information with respect to outstanding options and nonvested restricted stock units granted under the 1997 Plan and 2003 Plan is as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contract Life | Aggregate Intrinsic Value (in thousands) |
|----------------------------------|----------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|
| Options: | | | | |
| Outstanding at December 31, 2004 | 594,235 | \$ 34.23 | | |
| Granted | 85,000 | \$ 42.41 | | |
| Exercised | (70,364) | \$ 27.96 | | |
| Forfeited | (9,000) | \$ 31.66 | | |
| Outstanding at December 31, 2005 | 599,871 | \$ 36.25 | | |
| Granted | 32,000 | \$ 56.73 | | |
| Exercised | (37,900) | \$ 36.07 | | |
| Forfeited | (5,000) | \$ 44.20 | | |
| Outstanding at December 31, 2006 | 588,971 | \$ 35.89 | | |
| Granted | 32,000 | \$ 68.90 | | |
| Exercised | (43,384) | \$ 33.84 | | |
| Forfeited | (5,000) | \$ 39.18 | | |
| Outstanding at December 31, 2007 | 572,587 | \$ 37.86 | 5.41 Years | \$ 9,083 |
| Exercisable at December 31, 2007 | 414,987 | \$ 33.47 | 4.60 Years | \$ 7,949 |
| | Number of Units | Weighted Average Grant Date Fair Value | | |
| Restricted Stock Units: | | | | |
| Nonvested at December 31, 2004 | 120,100 | \$ 37.02 | | |
| Granted | 38,200 | \$ 41.43 | | |
| Vested | (19,250) | \$ 30.61 | | |
| Forfeited | (11,050) | \$ 37.98 | | |
| Nonvested at December 31, 2005 | 128,000 | \$ 39.27 | | |

Edgar Filing: PS BUSINESS PARKS INC/CA - Form 10-K/A

| | | | |
|--------------------------------|----------|----|-------|
| Granted | 133,950 | \$ | 55.12 |
| Vested | (24,000) | \$ | 36.06 |
| Forfeited | (10,750) | \$ | 40.91 |
| Nonvested at December 31, 2006 | 227,200 | \$ | 48.88 |
| Granted | 47,300 | \$ | 67.88 |
| Vested | (29,723) | \$ | 40.62 |
| Forfeited | (16,550) | \$ | 48.69 |
| Nonvested at December 31, 2007 | 228,227 | \$ | 53.91 |

Included in the Company's consolidated statements of income for the years ended December 31, 2007, 2006 and 2005 was \$590,000, \$527,000 and \$406,000, respectively, in net stock option compensation expense related to stock options granted. Net compensation expense of \$3.0 million, \$2.3 million and \$626,000 related to restricted stock units was recognized during the years ended December 31, 2007, 2006 and 2005, respectively.

As of December 31, 2007, there was \$1.1 million of unamortized compensation expense related to stock options expected to be recognized over a weighted average period of 3.1 years. As of December 31, 2007, there was \$7.5 million of unamortized compensation expense related to restricted stock units expected to be recognized over a weighted average period of 3.1 years.

Cash received from stock option exercises was \$1.5 million, \$1.4 million and \$1.9 million for the years ended December 31, 2007, 2006 and 2005, respectively. The aggregate intrinsic value of the stock options exercised during the years ended December 31, 2007, 2006 and 2005 was \$1.2 million, \$907,000 and \$1.0 million, respectively.

During the year ended December 31, 2007, 29,723 restricted stock units vested; in settlement of these units, 18,872 shares were issued, net of shares applied to payroll taxes. The aggregate fair value of the units vested for the year ended December 31, 2007 was \$2.0 million. During the year ended December 31, 2006, 24,000 restricted stock units vested; in settlement of these units, 16,612 shares were issued, net of shares applied to payroll taxes. The aggregate fair value of the units vested for the year ended December 31, 2006 was \$1.4 million. During the year ended December 31, 2005, 19,250 restricted stock units vested; in settlement of these units, 11,962 shares were issued, net of shares applied to payroll taxes. The aggregate fair value of the units vested for the year ended December 31, 2005 was \$841,000.

In May of 2004, the shareholders of the Company approved the issuance of up to 70,000 shares of common stock under the Retirement Plan for Non-Employee Directors (the Director Plan). Under the Director Plan the Company grants 1,000 shares of common stock for each year served as a director up to a maximum of 5,000 shares issued upon retirement. The Company recognizes compensation expense with regards to grants to be issued in the future under the Director Plan. As a result, included in the Company's income statement was \$101,000, \$66,000 and \$28,000 for the years ended December 31, 2007, 2006 and 2005, respectively, in compensation expense. As of December 31, 2007, 2006 and 2005, there was \$312,000, \$413,000 and \$179,000, respectively, of unamortized compensation expense related to these shares. In April of 2007, the company issued 5,000 shares to a director upon retirement with an aggregate fair value of \$345,000. In May of 2006, the Company issued 5,000 shares to a director upon retirement with an aggregate fair value of \$256,000.

11. Supplementary quarterly financial data (unaudited)

| | Three Months Ended | | | |
|---------------------------------------------|----------------------------------------------|--------------------------|-----------------------------------|----------------------------------|
| | March 31, 2006 | June 30, 2006 | September 30, 2006 | December 31, 2006 |
| | (In thousands, except per share data) | | | |
| Revenues (1) | \$ 58,903 | \$ 59,305 | \$ 61,842 | \$ 62,789 |
| Cost of operations (1) | \$ 17,946 | \$ 18,195 | \$ 19,213 | \$ 19,317 |
| Net income allocable to common shareholders | \$ 5,062 | \$ 4,395 | \$ 3,478 | \$ 3,712 |
| Net income per share: | | | | |
| Basic | \$ 0.24 | \$ 0.21 | \$ 0.16 | \$ 0.17 |
| Diluted | \$ 0.23 | \$ 0.20 | \$ 0.16 | \$ 0.17 |

| | Three Months Ended | | | |
|---------------------------------------------|----------------------------------------------|--------------------------|-----------------------------------|----------------------------------|
| | March 31, 2007 | June 30, 2007 | September 30, 2007 | December 31, 2007 |
| | (In thousands, except per share data) | | | |
| Revenues (1) | \$ 65,307 | \$ 67,457 | \$ 68,707 | \$ 70,028 |
| Cost of operations (1) | \$ 20,439 | \$ 21,022 | \$ 21,204 | \$ 21,695 |
| Net income allocable to common shareholders | \$ 5,923 | \$ 3,781 | \$ 4,267 | \$ 3,758 |

Net income per share:

| | | | | |
|-------|---------|---------|---------|---------|
| Basic | \$ 0.28 | \$ 0.18 | \$ 0.20 | \$ 0.18 |
|-------|---------|---------|---------|---------|

| | | | | |
|---------|---------|---------|---------|---------|
| Diluted | \$ 0.27 | \$ 0.17 | \$ 0.20 | \$ 0.17 |
|---------|---------|---------|---------|---------|

(1) Discontinued operations are excluded.

12. Commitments and contingencies

Substantially all of the Company's properties have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any probable or reasonably possible environmental costs that management believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any potentially material environmental liability.

The Company currently is neither subject to any other material litigation nor, to management's knowledge, is any material litigation currently threatened against the Company other than routine litigation and administrative proceedings arising in the ordinary course of business.

13. 401(K) Plan

The Company has a 401(K) savings plan (the Plan) which all eligible employees may participate. The Plan provides for the Company to make matching contributions to all eligible employees up to 4% of their annual salary dependent on the employee's level of participation. For the years ended December 31, 2007, 2006 and 2005, \$267,000, \$237,000 and \$203,000, respectively, was charged as expense related to this plan.

PS BUSINESS PARKS, INC.
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2007
(DOLLARS IN THOUSANDS)

| Description | Location | Initial Cost to | | Cost Capitalized Subsequent to | | Gross Amount at Which Carried at | | Accumulated Depreciation | Date Acquired | Depreciable Lives (Years) |
|--------------------------|-------------------|-----------------------|---------------------------|--------------------------------|--------------|----------------------------------|---------|--------------------------|---------------|---------------------------|
| | | Company Buildings and | Acquisition Buildings and | Improvements | Improvements | December 31, 2007 Buildings and | Total | | | |
| Produce | San Francisco, CA | \$ 776 | \$ 1,886 | \$ 299 | \$ 776 | \$ 2,185 | \$ 2961 | \$ 735 | 03/17/98 | 5-30 |
| Shenshaw II | Torrance, CA | 2,318 | 6,069 | 1,714 | 2,318 | 7,783 | 10,101 | 3,269 | 04/12/97 | 5-30 |
| Airport | San Francisco, CA | 899 | 2,387 | 490 | 899 | 2,877 | 3,776 | 1,048 | 04/12/97 | 5-30 |
| Christopher Ave | Gaithersburg, MD | 475 | 1,203 | 383 | 475 | 1,586 | 2,061 | 664 | 04/12/97 | 5-30 |
| Monterey Park | Monterey Park, CA | 3,078 | 7,862 | 1037 | 3,078 | 8,899 | 11,977 | 3,568 | 01/01/97 | 5-30 |
| Alle Del Oaks | Monterey, CA | 288 | 706 | 235 | 288 | 941 | 1,229 | 407 | 01/01/97 | 5-30 |
| Milwaukie I | Milwaukie, OR | 1,125 | 2,857 | 1083 | 1,125 | 3,940 | 5,065 | 1,647 | 01/01/97 | 5-30 |
| Edwards Road | Cerritos, CA | 450 | 1,217 | 757 | 450 | 1,974 | 2,424 | 749 | 01/01/97 | 5-30 |
| Rainier | Renton, WA | 330 | 889 | 417 | 330 | 1,306 | 1,636 | 514 | 01/01/97 | 5-30 |
| Busk | San Diego, CA | 1,500 | 3,738 | 1,689 | 1,500 | 5,427 | 6,927 | 2,268 | 01/01/97 | 5-30 |
| Rosenhower | Alexandria, VA | 1,440 | 3,635 | 1,909 | 1,440 | 5,544 | 6,984 | 2,424 | 01/01/97 | 5-30 |
| McClellips | Tempe, AZ | 195 | 522 | 509 | 195 | 1,031 | 1,226 | 528 | 01/01/97 | 5-30 |
| Old Oakland Rd | San Jose, CA | 3,458 | 8,765 | 2,298 | 3,458 | 11,063 | 14,521 | 4,453 | 01/01/97 | 5-30 |
| Sanipero | Signal Hill, CA | 900 | 2,510 | 378 | 900 | 2,888 | 3,788 | 1,131 | 01/01/97 | 5-30 |
| Northgate Blvd. | Sacramento, CA | 1,710 | 4,567 | 2,636 | 1,710 | 7,203 | 8,913 | 3,239 | 01/01/97 | 5-30 |
| Plandler | Culver City, CA | 3,252 | 8,157 | 4,314 | 3,252 | 12,471 | 15,723 | 5,532 | 01/01/97 | 5-30 |
| University | Tempe, AZ | 2,160 | 5,454 | 3,844 | 2,160 | 9,298 | 11,458 | 4,643 | 01/01/97 | 5-30 |
| 28th Street | Signal Hill, CA | 1,500 | 3,749 | 946 | 1,500 | 4,695 | 6,195 | 2,033 | 01/01/97 | 5-30 |
| W. Main | Mesa, AZ | 675 | 1,692 | 2,342 | 675 | 4,034 | 4,709 | 1,503 | 01/01/97 | 5-30 |
| Edward | Tempe, AZ | 645 | 1,653 | 1,570 | 645 | 3,223 | 3,868 | 1,599 | 01/01/97 | 5-30 |
| Mapwood Ave | Carson, CA | 990 | 2,496 | 1,020 | 990 | 3,516 | 4,506 | 1,561 | 01/01/97 | 5-30 |
| Great Oaks | Woodbridge, VA | 1,350 | 3,398 | 1,151 | 1,350 | 4,549 | 5,899 | 2,038 | 01/01/97 | 5-30 |
| Ventura Blvd. II | Studio City, CA | 621 | 1,530 | 253 | 621 | 1,783 | 2,404 | 730 | 01/01/97 | 5-30 |
| Gunston | Lorton, VA | 4,146 | 17,872 | 2,936 | 4,146 | 20,808 | 24,954 | 8,789 | 06/17/98 | 5-30 |
| Canada | Lake Forest, CA | 5,508 | 13,785 | 3,919 | 5,508 | 17,704 | 23,212 | 6,942 | 12/23/97 | 5-30 |
| Ridge Route | Laguna Hills, CA | 16,261 | 39,559 | 3,128 | 16,261 | 42,687 | 58,948 | 15,220 | 12/23/97 | 5-30 |
| Lake Forest | | | | | | | | | | |
| Commerce Park | Laguna Hills, CA | 2,037 | 5,051 | 3,390 | 2,037 | 8,441 | 10,478 | 4,176 | 12/23/97 | 5-30 |
| Quena Park | | | | | | | | | | |
| Industrial Center | Buena Park, CA | 3,245 | 7,703 | 1,534 | 3,245 | 9,237 | 12,482 | 3,698 | 12/23/97 | 5-30 |
| Cerritos Business Center | Cerritos, CA | 4,218 | 10,273 | 2,895 | 4,218 | 13,168 | 17,386 | 5,123 | 12/23/97 | 5-30 |
| Parkway | | | | | | | | | | |
| Commerce Center | Hayward, CA | 4,398 | 10,433 | 3,556 | 4,398 | 13,989 | 18,387 | 5,070 | 12/23/97 | 5-30 |

Edgar Filing: PS BUSINESS PARKS INC/CA - Form 10-K/A

| | | | | | | | | | | |
|-------------------|----------------|-------|--------|-------|-------|--------|--------|--------|----------|------|
| Northpointe E | Sterling, VA | 1,156 | 2,957 | 795 | 1,156 | 3,752 | 4,908 | 1,613 | 12/10/97 | 5-30 |
| Hammondale | Beltsville, MD | 4,278 | 18,380 | 6,591 | 4,278 | 24,971 | 29,249 | 12,601 | 01/13/98 | 5-30 |
| Law Road | Sterling, VA | 2,969 | 10,008 | 3,282 | 2,969 | 13,290 | 16,259 | 6,817 | 03/09/98 | 5-30 |
| Creekside-Phase 1 | Beaverton, OR | 1,852 | 4,821 | 1,555 | 1,852 | 6,376 | 8,228 | 2,849 | 05/04/98 | 5-30 |
| Creekside-Phase 2 | | | | | | | | | | |
| Bldg-4 | Beaverton, OR | 807 | 2,542 | 1,558 | 807 | 4,100 | 4,907 | 2,005 | 05/04/98 | 5-30 |
| Creekside-Phase 2 | | | | | | | | | | |
| Bldg-5 | Beaverton, OR | 521 | 1,603 | 778 | 521 | 2,381 | 2,902 | 1,179 | 05/04/98 | 5-30 |

| Description | Location | Encumbrances | Cost Capitalized Subsequent to Initial Cost to Company Acquisition | | | Gross Amount at Which Carried at December 31, 2007 | | | Accumulated Date Acquired | Depreciable Lives (Years) | |
|--------------------------------------------------|-----------------|--------------|--------------------------------------------------------------------|--------------|---------------|----------------------------------------------------|--------------|---------------|---------------------------|---------------------------|-------|
| | | | Land | Improvements | Buildings and | Land | Improvements | Buildings and | | | Total |
| Creekside-Phase 2 Bldg-1 | Beaverton, OR | | 1,326 | 4,035 | 1,274 | 1,326 | 5,309 | 6,635 | 2,619 | 05/04/98 | 5-30 |
| Creekside-Phase 3 | Beaverton, OR | | 1,353 | 4,101 | 1,142 | 1,353 | 5,243 | 6,596 | 2,636 | 05/04/98 | 5-30 |
| Creekside-Phase 5 | Beaverton, OR | | 1,741 | 5,301 | 1,581 | 1,741 | 6,882 | 8,623 | 3,269 | 05/04/98 | 5-30 |
| Creekside-Phase 6 | Beaverton, OR | | 2,616 | 7,908 | 2,371 | 2,616 | 10,279 | 12,895 | 5,094 | 05/04/98 | 5-30 |
| Creekside-Phase 7 | Beaverton, OR | | 3,293 | 9,938 | 4,101 | 3,293 | 14,039 | 17,332 | 6,982 | 05/04/98 | 5-30 |
| Creekside-Phase 8 | Beaverton, OR | | 1,140 | 3,644 | 732 | 1,140 | 4,376 | 5,516 | 1,972 | 05/04/98 | 5-30 |
| Northpointe G | Sterling, VA | | 824 | 2,964 | 1,298 | 824 | 4,262 | 5,086 | 2,343 | 06/11/98 | 5-30 |
| Las Plumas | San Jose, CA | | 4,379 | 12,889 | 4,236 | 4,379 | 17,125 | 21,504 | 8,722 | 12/31/98 | 5-30 |
| Lafayette | Chantilly, VA | | 671 | 4,179 | 492 | 671 | 4,671 | 5,342 | 1,920 | 01/29/99 | 5-30 |
| Creekside VII | Beaverton, OR | | 358 | 3,232 | 142 | 358 | 3,374 | 3,732 | 943 | 04/17/00 | 5-30 |
| Colles South | Chantilly, VA | | 599 | 3,098 | 677 | 599 | 3,775 | 4,374 | 1,596 | 06/30/99 | 5-30 |
| Collyfield Circle | Chantilly, VA | | 774 | 3,712 | 944 | 774 | 4,656 | 5,430 | 1,993 | 06/30/99 | 5-30 |
| Mark East I & II | Chantilly, VA | | 2,324 | 10,875 | 2,928 | 2,324 | 13,803 | 16,127 | 5,381 | 06/30/99 | 5-30 |
| Mark East III | Chantilly, VA | \$ 5,323 | 1,527 | 7,154 | 913 | 1,527 | 8,067 | 9,594 | 3,219 | 06/30/99 | 5-30 |
| Northpointe Business Center A | Sacramento, CA | | 729 | 3,324 | 1,104 | 729 | 4,428 | 5,157 | 1,991 | 07/29/99 | 5-30 |
| Corporate Park Phoenix | Phoenix, AZ | | 2,761 | 10,269 | 1,430 | 2,761 | 11,699 | 14,460 | 4,470 | 12/30/99 | 5-30 |
| Santa Clara Technology Park | Santa Clara, CA | | 7,673 | 15,645 | 724 | 7,673 | 16,369 | 24,042 | 6,257 | 03/28/00 | 5-30 |
| Corporate Pointe Lafayette II/Pleasant Valley Rd | Irvine, CA | | 6,876 | 18,519 | 4,520 | 6,876 | 23,039 | 29,915 | 8,963 | 09/22/00 | 5-30 |
| Northpointe Business Center B | Chantilly, VA | | 1,009 | 9,219 | 2,278 | 1,009 | 11,497 | 12,506 | 5,974 | 08/15/01 | 5-30 |
| Northpointe Business Center C | Sacramento, CA | | 717 | 3,269 | 1,626 | 717 | 4,895 | 5,612 | 2,222 | 07/29/99 | 5-30 |
| Northpointe Business Center D | Sacramento, CA | | 726 | 3,313 | 1,074 | 726 | 4,387 | 5,113 | 2,167 | 07/29/99 | 5-30 |
| Northpointe Business Center E | Sacramento, CA | | 427 | 1,950 | 507 | 427 | 2,457 | 2,884 | 1,015 | 07/29/99 | 5-30 |
| 95 Building I | Sacramento, CA | | 432 | 1,970 | 192 | 432 | 2,162 | 2,594 | 883 | 07/29/99 | 5-30 |
| 95 Building II | Springfield, VA | | 1,308 | 5,790 | 550 | 1,308 | 6,340 | 7,648 | 2,467 | 12/20/00 | 5-30 |
| 95 Building III | Springfield, VA | | 1,308 | 5,790 | 965 | 1,308 | 6,755 | 8,063 | 2,984 | 12/20/00 | 5-30 |
| 700 Prosperity Avenue | Springfield, VA | | 919 | 4,092 | 7,337 | 919 | 11,429 | 12,348 | 8,155 | 12/20/00 | 5-30 |
| 701 Prosperity Avenue | Fairfax, VA | | 3,404 | 9,883 | 425 | 3,404 | 10,308 | 13,712 | 3,711 | 06/01/01 | 5-30 |
| 710 Prosperity Avenue | Fairfax, VA | | 2,199 | 6,374 | 1,122 | 2,199 | 7,496 | 9,695 | 2,976 | 06/01/01 | 5-30 |
| 711 Prosperity Avenue | Fairfax, VA | | 969 | 2,844 | 495 | 969 | 3,339 | 4,308 | 1,260 | 06/01/01 | 5-30 |
| | Fairfax, VA | | 1,047 | 3,099 | 632 | 1,047 | 3,731 | 4,778 | 1,510 | 06/01/01 | 5-30 |

Edgar Filing: PS BUSINESS PARKS INC/CA - Form 10-K/A

| | | | | | | | | | | |
|-----------------------|---------------|-------|--------|-------|-------|--------|--------|-------|----------|------|
| 720 Prosperity Avenue | Fairfax, VA | 1,898 | 5,502 | 966 | 1,898 | 6,468 | 8,366 | 2,635 | 06/01/01 | 5-30 |
| 721 Prosperity Avenue | Fairfax, VA | 576 | 1,673 | 788 | 576 | 2,461 | 3,037 | 1,332 | 06/01/01 | 5-30 |
| 730 Prosperity Avenue | Fairfax, VA | 3,011 | 8,841 | 2,599 | 3,011 | 11,440 | 14,451 | 4,290 | 06/01/01 | 5-30 |
| 731 Prosperity Avenue | Fairfax, VA | 524 | 1,521 | 369 | 524 | 1,890 | 2,414 | 790 | 06/01/01 | 5-30 |
| 740 Prosperity Avenue | Fairfax, VA | 890 | 2,732 | 202 | 890 | 2,934 | 3,824 | 1,110 | 06/01/01 | 5-30 |
| 741 Prosperity Avenue | Fairfax, VA | 786 | 2,284 | 335 | 786 | 2,619 | 3,405 | 1,010 | 06/01/01 | 5-30 |
| 750 Prosperity Avenue | Fairfax, VA | 4,203 | 12,190 | 3,577 | 4,203 | 15,767 | 19,970 | 6,776 | 06/01/01 | 5-30 |
| 751 Prosperity Avenue | Fairfax, VA | 3,640 | 10,632 | 2,177 | 3,640 | 12,809 | 16,449 | 4,150 | 06/01/01 | 5-30 |
| Greenbrier Court | Beaverton, OR | 2,771 | 8,403 | 1,333 | 2,771 | 9,736 | 12,507 | 3,899 | 11/20/01 | 5-30 |

30

| Description | Location | Encumbrance | Initial Cost to | | | Gross Amount at Which | | | Accumulated | Date | Depreciation |
|-------------------|----------|-------------|-----------------|--------------|-------------------|-----------------------|--------------|--------------|--------------|--------------|--------------|
| | | | Company | Acquisition | December 31, 2007 | to | Carried at | Buildings | | | |
| | | | Buildings | Buildings | Buildings | Buildings | Buildings | Buildings | Buildings | Buildings | |
| | | | and | and | and | and | and | and | and | and | |
| | | | Improvements | Improvements | Improvements | Improvements | Improvements | Improvements | Improvements | Improvements | |
| | | | Total | Total | Total | Total | Total | Total | Total | Total | |
| | | | Cost | Cost | Cost | Cost | Cost | Cost | Cost | Cost | |
| | | | Capitalized | Capitalized | Capitalized | Capitalized | Capitalized | Capitalized | Capitalized | Capitalized | |
| | | | Subsequent | Subsequent | Subsequent | Subsequent | Subsequent | Subsequent | Subsequent | Subsequent | |
| Beaverton, OR | | | 4,348 | 13,502 | 1,432 | 4,348 | 14,934 | 19,282 | 5,940 | 11/20/01 | 5-3 |
| Beaverton, OR | | | 5,535 | 16,814 | 2,050 | 5,535 | 18,864 | 24,399 | 7,103 | 11/20/01 | 5-3 |
| Beaverton, OR | | | 4,045 | 12,419 | 1,924 | 4,045 | 14,343 | 18,388 | 5,829 | 11/20/01 | 5-3 |
| Beaverton, OR | | | 2,478 | 7,531 | 269 | 2,478 | 7,800 | 10,278 | 2,805 | 11/20/01 | 5-3 |
| Beaverton, OR | | | 1,439 | 4,566 | 2,045 | 1,439 | 6,611 | 8,050 | 3,021 | 11/20/01 | 5-3 |
| Santa Ana, CA | | | 734 | 2,752 | 590 | 734 | 3,342 | 4,076 | 1,744 | 06/10/03 | 5-3 |
| Santa Ana, CA | | | 2,154 | 8,093 | 1,506 | 2,154 | 9,599 | 11,753 | 5,164 | 06/10/03 | 5-3 |
| Santa Ana, CA | | | 3,019 | 11,348 | 5,607 | 3,019 | 16,955 | 19,974 | 8,460 | 06/10/03 | 5-3 |
| Santa Ana, CA | | | 1,655 | 6,243 | 6,017 | 1,655 | 12,260 | 13,915 | 7,441 | 06/10/03 | 5-3 |
| Santa Ana, CA | | | 1,843 | 7,310 | 793 | 1,843 | 8,103 | 9,946 | 4,331 | 06/10/03 | 5-3 |
| Phoenix, AZ | | | 2,369 | 7,245 | 570 | 2,369 | 7,815 | 10,184 | 2,282 | 12/17/03 | 5-3 |
| Orange, CA | | | 2,637 | 12,291 | 2,178 | 2,637 | 14,469 | 17,106 | 4,111 | 12/24/03 | 5-3 |
| Fairfax, VA | | | 4,647 | 19,492 | 2,851 | 4,647 | 22,343 | 26,990 | 5,887 | 05/27/04 | 5-3 |
| San Diego, CA | 14,510 | 15,129 | 20,054 | 943 | 15,129 | 20,997 | 36,126 | 5,769 | 10/25/05 | 5-3 | |
| Signal Hill, CA | | | 1,542 | 2,314 | 46 | 1,542 | 2,360 | 3,902 | 310 | 06/14/06 | 5-3 |
| Signal Hill, CA | | | 1,417 | 2,125 | 118 | 1,417 | 2,243 | 3,660 | 301 | 06/14/06 | 5-3 |
| Signal Hill, CA | | | 1,334 | 2,001 | 115 | 1,334 | 2,116 | 3,450 | 303 | 06/14/06 | 5-3 |
| Chantilly, VA | | | 4,736 | 11,051 | 1,300 | 4,736 | 12,351 | 17,087 | 1,829 | 06/20/06 | 5-3 |
| Silver Spring, CA | 17,348 | 5,881 | 25,070 | 2,604 | 5,881 | 27,674 | 33,555 | 2,586 | 06/29/06 | 5-3 | |
| Silver Spring, MD | | | 2,944 | 7,519 | 397 | 2,944 | 7,916 | 10,860 | 1,177 | 02/08/06 | 5-3 |
| Silver Spring, MD | | | 2,073 | 5,296 | 366 | 2,073 | 5,662 | 7,735 | 850 | 02/08/06 | 5-3 |
| Silver Spring, MD | | | 1,733 | 4,426 | 73 | 1,733 | 4,499 | 6,232 | 687 | 02/08/06 | 5-3 |
| Silver Spring, MD | | | 2,442 | 6,238 | 43 | 2,442 | 6,281 | 8,723 | 970 | 02/08/06 | 5-3 |
| Silver Spring, MD | | | 1,549 | 3,955 | 24 | 1,549 | 3,979 | 5,528 | 613 | 02/08/06 | 5-3 |
| Silver Spring, MD | | | 1,385 | 3,539 | 4 | 1,385 | 3,543 | 4,928 | 546 | 02/08/06 | 5-3 |
| Silver Spring, MD | | | 3,374 | 8,618 | 73 | 3,374 | 8,691 | 12,065 | 1,338 | 02/08/06 | 5-3 |
| Silver Spring, MD | | | 2,016 | 5,151 | 390 | 2,016 | 5,541 | 7,557 | 810 | 02/08/06 | 5-3 |
| Silver Spring, MD | | | 1,864 | 4,760 | 304 | 1,864 | 5,064 | 6,928 | 778 | 02/08/06 | 5-3 |
| San Jose, CA | | | 3,540 | 4,896 | 333 | 3,540 | 5,229 | 8,769 | 365 | 10/27/06 | 5-3 |
| Boca Raton, FL | 10,274 | 7,436 | 8,055 | 283 | 7,436 | 8,338 | 15,774 | 637 | 12/08/06 | 5-3 | |
| Boca Raton, FL | | 359 | 1,203 | | 359 | 1,203 | 1,562 | 43 | 12/08/06 | 5-3 | |
| Wellington, FL | | | 1,132 | 1,847 | 286 | 1,132 | 2,133 | 3,265 | 174 | 12/08/06 | 5-3 |
| Wellington, FL | 10,281 | 7,130 | 11,633 | 86 | 7,130 | 11,719 | 18,849 | 958 | 12/08/06 | 5-3 | |
| Wellington, FL | 2,989 | 1,350 | 2,203 | 33 | 1,350 | 2,236 | 3,586 | 181 | 12/08/06 | 5-3 | |

| | | | | | | | | | | |
|----------------------|----------------|-------|--------|-----|-------|--------|--------|-------|----------|-----|
| ngton Commerce | | | | | | | | | | |
| ngton Commerce II | Wellington, FL | 194 | 453 | | 194 | 453 | 647 | 16 | 12/08/06 | 5-3 |
| ngton Commerce I | Wellington, FL | 217 | 507 | | 217 | 507 | 724 | 18 | 12/08/06 | 5-3 |
| ngton Commerce | Wellington, FL | 822 | 1,917 | | 822 | 1,917 | 2,739 | 69 | 12/08/06 | 5-3 |
| ake Business Park | Redmond, WA | 8,732 | 15,524 | 930 | 8,732 | 16,454 | 25,186 | 1,726 | 02/16/07 | 5-3 |
| | | | 31 | | | | | | | |

| Description | Location | Cost Capitalized Subsequent to Gross Amount at Which Carried at | | | | | | | | | Depreciated Lives (Years) | |
|-------------------------|--------------------|-----------------------------------------------------------------|-------------------------------------|------------------|---------------|-------------------|---------------|------------------|--------------------------|---------------|---------------------------|-------|
| | | Encumbrances | Initial Cost to Company Acquisition | | | December 31, 2007 | | | Accumulated Depreciation | Date Acquired | | |
| | | | Buildings and | Improvements and | Buildings and | Improvements and | Buildings and | Improvements and | | | | Total |
| | | | | | | | | | | | | |
| Merlake South-Bldg 1-8 | Redmond, WA | 7,913 | 14,067 | 352 | 7,913 | 14,419 | 22,332 | 1,886 | 02/16/07 | 5-30 | | |
| Merlake South-Bldg 9-13 | Redmond, WA | 4,639 | 8,247 | 161 | 4,639 | 8,408 | 13,047 | 1,074 | 02/16/07 | 5-30 | | |
| Merlake South-Bldg 16 | Redmond, WA | 4,265 | 7,583 | 254 | 4,265 | 7,837 | 12,102 | 1,137 | 02/16/07 | 5-30 | | |
| Merlake South-Bldg 17 | Redmond, WA | 1,564 | 2,781 | 50 | 1,564 | 2,831 | 4,395 | 421 | 02/16/07 | 5-30 | | |
| Merlake South-Retail | Redmond, WA | 648 | 1,151 | 13 | 648 | 1,164 | 1,812 | 100 | 02/16/07 | 5-30 | | |
| Commerce Campus | Santa Clara, CA | 17,218 | 21,914 | 1,187 | 17,218 | 23,101 | 40,319 | 3,341 | 03/27/07 | 5-30 | | |
| Coaks Corporate Center | Fairfax, VA | 8,951 | 16,740 | 123 | 8,951 | 16,863 | 25,814 | 701 | 08/03/07 | 5-30 | | |
| Eastwood | Farmers Branch, TX | 941 | 6,884 | 1,306 | 941 | 8,190 | 9,131 | 2,521 | 02/12/03 | 5-30 | | |
| CC-Center 1 | Miami, FL | 6,502 | 7,409 | 1,259 | 6,502 | 8,668 | 15,170 | 2,867 | 12/30/03 | 5-30 | | |
| CC-Center 2 | Miami, FL | 6,502 | 7,409 | 1,622 | 6,502 | 9,031 | 15,533 | 2,891 | 12/30/03 | 5-30 | | |
| CC-Center 3 | Miami, FL | 7,015 | 7,993 | 2,389 | 7,015 | 10,382 | 17,397 | 3,022 | 12/30/03 | 5-30 | | |
| CC-Center 4 | Miami, FL | 4,837 | 5,511 | 1,449 | 4,837 | 6,960 | 11,797 | 2,291 | 12/30/03 | 5-30 | | |
| CC-Center 5 | Miami, FL | 6,209 | 5,940 | 2,744 | 6,209 | 8,684 | 14,893 | 2,626 | 12/30/03 | 5-30 | | |
| CC-Center 6 | Miami, FL | 6,371 | 7,259 | 939 | 6,371 | 8,198 | 14,569 | 2,649 | 12/30/03 | 5-30 | | |
| CC-Center 7 | Miami, FL | 5,011 | 5,710 | 688 | 5,011 | 6,398 | 11,409 | 2,046 | 12/30/03 | 5-30 | | |
| CC-Center 8 | Miami, FL | 5,398 | 6,150 | 1,046 | 5,398 | 7,196 | 12,594 | 2,318 | 12/30/03 | 5-30 | | |
| CC-Center 9 | Miami, FL | 7,392 | 8,424 | 1,006 | 7,392 | 9,430 | 16,822 | 2,918 | 12/30/03 | 5-30 | | |
| CC-Center 10 | Miami, FL | 9,341 | 10,644 | 2,507 | 9,341 | 13,151 | 22,492 | 3,917 | 12/30/03 | 5-30 | | |
| CC-Center 12 | Miami, FL | 3,025 | 3,447 | 580 | 3,025 | 4,027 | 7,052 | 1,219 | 12/30/03 | 5-30 | | |
| CC-Center 13 | Miami, FL | 2,342 | 2,669 | 217 | 2,342 | 2,886 | 5,228 | 921 | 12/30/03 | 5-30 | | |
| CC-Center 14 | Miami, FL | 5,900 | 6,723 | 2,270 | 5,900 | 8,993 | 14,893 | 2,818 | 12/30/03 | 5-30 | | |
| CC-Center 15 | Miami, FL | 3,295 | 3,755 | 699 | 3,295 | 4,454 | 7,749 | 1,464 | 12/30/03 | 5-30 | | |
| CC-Center 16 | Miami, FL | 1,263 | 1,439 | 1,790 | 1,263 | 3,229 | 4,492 | 1,130 | 12/30/03 | 5-30 | | |
| CC-Center 17 | Miami, FL | 2,400 | 1,249 | 419 | 2,400 | 1,668 | 4,068 | 464 | 12/30/03 | 5-30 | | |
| CC-Center 18 | Miami, FL | 322 | 367 | 90 | 322 | 457 | 779 | 136 | 12/30/03 | 5-30 | | |
| CC-Center 19 | Miami, FL | 2,335 | 2,662 | 839 | 2,335 | 3,501 | 5,836 | 1,331 | 12/30/03 | 5-30 | | |
| CC-Center 20 | Miami, FL | 2,674 | 3,044 | 399 | 2,674 | 3,443 | 6,117 | 1,128 | 12/30/03 | 5-30 | | |
| Mar Boulevard | Austin, TX | 2,528 | 6,596 | 3,641 | 2,528 | 10,237 | 12,765 | 4,651 | 01/01/97 | 5-30 | | |
| Barker's Landing | Houston, TX | 1,140 | 3,003 | 4,283 | 1,140 | 7,286 | 8,426 | 3,445 | 01/01/97 | 5-30 | | |
| Prada | Mesquite, TX | 495 | 1,235 | 547 | 495 | 1,782 | 2,277 | 644 | 01/01/97 | 5-30 | | |
| Y Highway | Garland, TX | 480 | 1,203 | 500 | 480 | 1,703 | 2,183 | 638 | 01/01/97 | 5-30 | | |
| Mail Valley | Missouri City, TX | 360 | 918 | 541 | 360 | 1,459 | 1,819 | 670 | 01/01/97 | 5-30 | | |
| Business Parkway I | Richardson, TX | 799 | 3,568 | 1,956 | 799 | 5,524 | 6,323 | 2,465 | 05/04/98 | 5-30 | | |
| Summit | Plano, TX | 1,536 | 6,654 | 3,380 | 1,536 | 10,034 | 11,570 | 4,204 | 05/04/98 | 5-30 | | |
| Northgate II | Dallas, TX | 1,274 | 5,505 | 2,219 | 1,274 | 7,724 | 8,998 | 3,352 | 05/04/98 | 5-30 | | |
| Empire Commerce | Dallas, TX | 304 | 1,545 | 655 | 304 | 2,200 | 2,504 | 921 | 05/04/98 | 5-30 | | |
| Central Tech-Digital | Irving, TX | 319 | 1,393 | 345 | 319 | 1,738 | 2,057 | 872 | 05/04/98 | 5-30 | | |

Edgar Filing: PS BUSINESS PARKS INC/CA - Form 10-K/A

| | | | | | | | | | | |
|--------------------|------------|-------|-------|-------|-------|-------|-------|-------|----------|------|
| al Tech-Springwood | Irving, TX | 894 | 3,824 | 1,808 | 894 | 5,632 | 6,526 | 2,584 | 05/04/98 | 5-30 |
| al Tech-Regent | Irving, TX | 606 | 2,615 | 1,800 | 606 | 4,415 | 5,021 | 2,291 | 05/04/98 | 5-30 |
| al Tech-Bldg 7 | Irving, TX | 246 | 1,061 | 137 | 246 | 1,198 | 1,444 | 566 | 05/04/98 | 5-30 |
| al Tech-NFTZ | Irving, TX | 1,517 | 6,499 | 1,690 | 1,517 | 8,189 | 9,706 | 4,032 | 05/04/98 | 5-30 |
| al Tech-Olympus | Irving, TX | 1,060 | 4,531 | 527 | 1,060 | 5,058 | 6,118 | 2,158 | 05/04/98 | 5-30 |
| al Tech-Honeywell | Irving, TX | 548 | 2,347 | 452 | 548 | 2,799 | 3,347 | 1,187 | 05/04/98 | 5-30 |
| al Tech-Bldg 12 | Irving, TX | 1,466 | 6,263 | 2,052 | 1,466 | 8,315 | 9,781 | 3,529 | 05/04/98 | 5-30 |
| al Tech-Bldg 13 | Irving, TX | 955 | 4,080 | 1,111 | 955 | 5,191 | 6,146 | 1,959 | 05/04/98 | 5-30 |

32

| | Location | Encumbrances | Cost Capitalized Subsequent | | | Gross Amount at Which Carried | | | Accumulated Depreciation | Date Acquired |
|----------------|-----------------|--------------|-----------------------------|---------------------------|--------------|-------------------------------|--------|-------------------|--------------------------|---------------|
| | | | Initial Cost to Company | Acquisition Buildings and | Improvements | to | at | December 31, 2007 | | |
| | | Land | Improvements | Improvements | Land | Improvements | Total | | | |
| lg 14 | Irving, TX | 2,010 | 10,242 | 2,162 | 2,010 | 12,404 | 14,414 | 5,133 | 05/04/9 | |
| lg 15 | Irving, TX | 1,307 | 5,600 | 1,574 | 1,307 | 7,174 | 8,481 | 2,685 | 11/04/9 | |
| Corporate Park | Houston, TX | 2,173 | 7,338 | 1,338 | 2,173 | 8,676 | 10,849 | 3,144 | 12/30/9 | |
| | Austin, TX | 789 | 3,571 | 271 | 789 | 3,842 | 4,631 | 1,685 | 12/31/9 | |
| | Austin, TX | 761 | 3,444 | 396 | 761 | 3,840 | 4,601 | 1,623 | 12/31/9 | |
| | Austin, TX | 662 | 2,994 | 691 | 662 | 3,685 | 4,347 | 1,727 | 12/31/9 | |
| | Austin, TX | 749 | 3,390 | 742 | 749 | 4,132 | 4,881 | 1,889 | 12/31/9 | |
| | Austin, TX | 597 | 2,752 | 930 | 597 | 3,682 | 4,279 | 1,622 | 01/06/9 | |
| | Austin, TX | 367 | 1,672 | 387 | 367 | 2,059 | 2,426 | 898 | 05/20/9 | |
| | Austin, TX | 1,144 | 5,225 | 806 | 1,144 | 6,031 | 7,175 | 2,377 | 05/20/9 | |
| | Austin, TX | 437 | 2,013 | 957 | 437 | 2,970 | 3,407 | 1,469 | 01/06/0 | |
| | Austin, TX | 325 | 1,536 | 122 | 325 | 1,658 | 1,983 | 658 | 01/06/9 | |
| | Austin, TX | 535 | 2,487 | 313 | 535 | 2,800 | 3,335 | 1,248 | 01/06/9 | |
| | Austin, TX | 469 | 2,190 | 346 | 469 | 2,536 | 3,005 | 1,029 | 01/06/9 | |
| | Austin, TX | 535 | 2,422 | 278 | 535 | 2,700 | 3,235 | 1,183 | 12/31/9 | |
| | Austin, TX | 158 | 762 | 1,741 | 158 | 2,503 | 2,661 | 1,107 | 01/06/9 | |
| lg 16 | Irving, TX | 2,464 | 2,703 | 3,162 | 2,464 | 5,865 | 8,329 | 1,661 | 07/01/9 | |
| lg 17 | Irving, TX | 1,832 | 6,901 | 1,621 | 1,832 | 8,522 | 10,354 | 2,363 | 08/15/0 | |
| ss Center | Herndon, VA | 5,926 | 13,944 | 6,454 | 5,926 | 20,398 | 26,324 | 8,987 | 08/01/9 | |
| | San Diego, CA | 1,077 | 2,644 | 424 | 1,077 | 3,068 | 4,145 | 1,134 | 03/17/9 | |
| | San Diego, CA | 1,230 | 3,005 | 1,370 | 1,230 | 4,375 | 5,605 | 1,785 | 03/17/9 | |
| e | San Ramon, CA | 1,486 | 3,642 | 859 | 1,486 | 4,501 | 5,987 | 1,819 | 03/17/9 | |
| | Sterling, VA | 787 | 2,857 | 1,389 | 787 | 4,246 | 5,033 | 2,416 | 06/11/9 | |
| | Herndon, VA | 811 | 4,967 | 970 | 811 | 5,937 | 6,748 | 2,560 | 01/29/9 | |
| | Rockville, MD | 5,383 | 15,404 | 2,748 | 5,383 | 18,152 | 23,535 | 6,716 | 12/27/0 | |
| &D | Rockville, MD | 5,404 | 15,748 | 4,610 | 5,404 | 20,358 | 25,762 | 8,570 | 12/27/0 | |
| | Rockville, MD | 1,223 | 3,490 | 623 | 1,223 | 4,113 | 5,336 | 1,708 | 12/27/0 | |
| | Rockville, MD | 2,287 | 6,533 | 1,706 | 2,287 | 8,239 | 10,526 | 3,483 | 12/27/0 | |
| | Rockville, MD | 4,555 | 13,039 | 4,120 | 4,555 | 17,159 | 21,714 | 7,336 | 12/27/0 | |
| | Rockville, MD | 4,188 | 12,035 | 834 | 4,188 | 12,869 | 17,057 | 4,541 | 12/27/0 | |
| | Rockville, MD | 9,813 | 28,214 | 4,273 | 9,813 | 32,487 | 42,300 | 12,047 | 12/27/0 | |
| office | San Diego, CA | 785 | 1,933 | 1,187 | 785 | 3,120 | 3,905 | 1,296 | 03/17/9 | |
| &D | San Diego, CA | 2,109 | 5,156 | 628 | 2,109 | 5,784 | 7,893 | 2,137 | 03/17/9 | |
| e | Alexandria, VA | 572 | 1,401 | 1,909 | 572 | 3,310 | 3,882 | 1,627 | 03/17/9 | |
| | San Diego, CA | 1,904 | 4,662 | 922 | 1,904 | 5,584 | 7,488 | 2,079 | 03/17/9 | |
| | Alexandria, VA | 1,625 | 3,979 | 596 | 1,625 | 4,575 | 6,200 | 1,694 | 03/17/9 | |
| office | Springfield, VA | 988 | 2,418 | 3,055 | 988 | 5,473 | 6,461 | 2,524 | 03/17/9 | |
| &D | Springfield, VA | 947 | 2,318 | 543 | 947 | 2,861 | 3,808 | 1,155 | 03/17/9 | |

Edgar Filing: PS BUSINESS PARKS INC/CA - Form 10-K/A

| | | | | | | | | |
|---------------|-----------|------------|--------------|------------|------------|--------------|--------------|------------|
| Rockville, MD | 1,142 | | 328 | 1,142 | 328 | 1,470 | 14 | 02/27/0 |
| | \$ 60,725 | \$ 494,849 | \$ 1,208,690 | \$ 275,359 | \$ 494,849 | \$ 1,484,049 | \$ 1,978,898 | \$ 539,857 |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 15, 2008

PS Business Parks, Inc.

By: /s/ Joseph D. Russell, Jr.

Joseph D. Russell, Jr.
President and Chief Executive Officer

34

PS BUSINESS PARKS, INC.
EXHIBIT INDEX

- 23 Consent of Independent Registered Public Accounting Firm. Filed herewith.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.