

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:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
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

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of 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.

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## 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))**

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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
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Consolidated statements of cash flows for the years ended December 31, 2007, 2006 and 2005	11
Notes to consolidated financial statements	13
<b>Schedule:</b>	
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**

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
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
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
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
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See accompanying notes.

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**PS BUSINESS PARKS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>For the Years Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except per share data)</b>		
Revenues:			
Rental income	\$ 270,775	\$ 242,214	\$ 219,604
Facility management fees	724	625	579
<b>Total operating revenues</b>	<b>271,499</b>	<b>242,839</b>	<b>220,183</b>
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
<b>Total operating expenses</b>	<b>190,798</b>	<b>167,933</b>	<b>147,733</b>
Other income and expenses:			
Interest and other income	5,104	6,874	4,888
Interest expense	(4,130)	(2,575)	(1,330)
<b>Total other income and expenses</b>	<b>974</b>	<b>4,299</b>	<b>3,558</b>
Asset impairment due to casualty loss			72
<b>Income from continuing operations before minority interests</b>	<b>81,675</b>	<b>79,205</b>	<b>75,936</b>
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)
<b>Total minority interests in continuing operations</b>	<b>(13,009)</b>	<b>(16,268)</b>	<b>(16,262)</b>
<b>Income from continuing operations</b>	<b>68,666</b>	<b>62,937</b>	<b>59,674</b>
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)
<b>Income from discontinued operations</b>		<b>1,643</b>	<b>15,620</b>
<b>Net Income</b>	<b>68,666</b>	<b>64,580</b>	<b>75,294</b>
Net income allocable to preferred shareholders:			
Preferred stock distributions:			
Preferred stock distributions	50,937	44,553	43,011
Redemptions of preferred stock		3,380	

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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)							
<b>Balances at December 31, 2004</b>	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
<b>Balances at December 31, 2005</b>	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
<b>Balances at December 31, 2006</b>	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
<b>Balances at December 31, 2007</b>	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**

	<b>For the Years Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>		
<b>Cash flows from operating activities:</b>			
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