

PS BUSINESS PARKS INC/CA
Form 8-K
May 02, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported) May 1, 2006

PS BUSINESS PARKS, INC.

(Exact name of registrant as specified in its charter)

California
(State or Other Jurisdiction
of Incorporation)

1-10709
(Commission File
Number)

95-4300881
(I.R.S. Employer Identification
Number)

701 Western Avenue, Glendale, California 91201-2397

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(818) 244-8080**

N/A

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition and Exhibits

On May 1, 2006, PS Business Parks, Inc. announced its financial results for the first quarter ended March 31, 2006. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K. The information in this Form 8-K and the Exhibit attached hereto shall not be deemed filed for purposes of Section 18 of the Securities

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Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

The following exhibit relating to Item 2.02 shall be deemed to be furnished, and not filed:

99.1 Press release dated May 1, 2006

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PS BUSINESS PARKS, INC.

Date: May 1, 2006

By: /s/ Edward A. Stokx
Edward A. Stokx
Chief Financial Officer

News Release

PS Business Parks, Inc.
701 Western Avenue
Glendale, CA 91201-2349
www.psbusinessparks.com

For Release: Immediately
Date: May 1, 2006
Contact: Mr. Edward A. Stokx
(818) 244-8080, Ext. 1649

PS Business Parks, Inc. Reports Results for the First Quarter Ended March 31, 2006

Glendale, California PS Business Parks, Inc. (AMEX:PSB) reported operating results for the first quarter ended March 31, 2006.

Net income allocable to common shareholders for the three months ended March 31, 2006 was \$5.1 million or \$0.23 per diluted share on revenues of \$58.9 million compared to \$7.3 million or \$0.33 per diluted share on revenues of \$53.9 million for the same period in 2005.

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Revenues increased \$5.0 million for the three months ended March 31, 2006 as a result of improved occupancy within the Company's portfolio combined with a payment received from a former tenant in connection with a bankruptcy settlement of approximately \$1.8 million. Net income allocable to common shareholders for the three months ended March 31, 2006 decreased over the same period of 2005 by \$2.3 million or \$0.10 per diluted share resulting primarily from a decrease in the gain on disposition of real estate.

Supplemental Measures

Funds from operations (FFO) allocable to common shareholders and unit holders for the three months ended March 31, 2006 and 2005 were \$26.7 million, or \$0.92 per diluted share, and \$25.9 million, or \$0.88 per diluted share, respectively. The increase in FFO was primarily due to the receipt of \$1.8 million from the previously mentioned bankruptcy settlement partially offset by an increase in Same Park operating expenses and the net impact of sold and acquired assets.

Property Operations

In order to evaluate the performance of the Company's overall portfolio over two comparable periods, management analyzes the operating performance of a consistent group of properties owned and operated throughout both periods (herein referred to as Same Park). Operating properties that the Company acquired subsequent to January 1, 2005 are referred to as Other Facilities. For the three months ended March 31, 2006 and 2005, the Same Park portfolio constitutes 17.2 million net rentable square feet, which includes all assets included in continuing operations the Company owned and operated from January 1, 2005 through March 31, 2006, and represents approximately 97% of the weighted average square footage of the Company's portfolio for the three months ended March 31, 2006.

The Company's property operations account for substantially all of the net operating income earned by the Company. The following table presents the operating results of the Company's properties for the three months ended March 31, 2006 in addition to other income and expense items affecting income from continuing operations (unaudited, in thousands, except per square foot amounts):

	For the Three Months Ended March 31,		Cha
	2006	2005	
Rental income:			
Same Park (17.2 million net rentable square feet) (1).....	\$ 56,853	\$ 53,763	
Other Facilities (599,000 net rentable square feet) (2)....	\$ 1,901	-	10
Total rental income.....	58,754	53,763	
Cost of operations:			
Same Park.....	17,439	15,870	
Other Facilities.....	507	-	10
Total cost of operations.....	17,946	15,870	1
Net operating income (3):			
Same Park.....	39,414	37,893	
Other Facilities.....	1,394	-	10
Total net operating income.....	40,808	37,893	
Other income and expenses:			
Facility management fees.....	149	145	
Interest and other income.....	2,000	398	40
Interest expense.....	(513)	(282)	8
Depreciation and amortization.....	(20,586)	(18,426)	1
General and administrative.....	(1,650)	(1,438)	1
Income before discontinued operations and minority interest.	\$ 20,208	\$ 18,290	1
Same Park gross margin (4).....	69.3%	70.5%	(

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Same Park weighted average for period:

Occupancy.....	92.7%	91.4%
Annualized realized rent per square foot (5).....	\$ 14.22	\$ 13.64

- (1) See above for a definition of Same Park.
- (2) Represents operating properties owned by the Company as of March 31, 2006 that are not included in the Same Park calculation.
- (3) Net operating income ("NOI") is an important measurement in the commercial real estate industry of the real estate generating the NOI. The Company's calculation of NOI may not be comparable to other companies' calculations and should not be used as an alternative to measures of performance in accordance with generally accepted accounting principles ("GAAP").
- (4) Same Park gross margin is computed by dividing NOI by rental income.
- (5) Same Park realized rent per square foot represents the annualized revenues earned per occupied square foot. In the third quarter of 2006, the Company recognized a non-recurring gain from a bankruptcy settlement of \$1.8 million, Same Park realized rent per square foot for the third quarter of 2006 has been \$13.77.

Financial Condition

The following are key financial ratios with respect to the Company's leverage at and for the three months ended March 31, 2006.

Ratio of FFO to fixed charges (1).....	80.4x
Ratio of FFO to fixed charges and preferred distributions (1).....	2.8x
Debt and preferred equity to total market capitalization (based on common stock price of \$55.92 at March 31, 2006).....	32.0%
Available under line of credit at March 31, 2006.....	\$100.0 million

- (1) Fixed charges include interest expense of \$513,000.

Property Acquisitions

On February 8, 2006, the Company acquired WesTech Business Park, a 366,000 square foot office and flex park in Silver Spring, Maryland, for approximately \$69.7 million. The park, which was approximately 95.0% occupied at the time of acquisition, consists of nine single-story buildings.

Property Dispositions

During the three months ended March 31, 2006, the Company sold three units at Miami International Commerce Center (MICC) aggregating 25,300 square feet with a combined gross sale price of \$2.9 million. In connection with these sales, the Company recognized gains of \$711,000.

Stock Repurchase Program

The Company's Board of Directors has authorized the repurchase, from time to time, of up to 4.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the three months ended March 31, 2006, the Company repurchased 225,000 shares of common stock at a cost of approximately \$11.7 million. Since inception of the program through March 31, 2006, the Company has repurchased an aggregate of 3.2 million shares of common stock at an aggregate cost of approximately \$98.2 million (average cost of \$30.61 per share).

Distributions Declared

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The Board of Directors declared a quarterly dividend of \$0.29 per common share on May 1, 2006. Distributions were also declared on the various series of depositary shares, each representing 1/1,000 of a share of preferred stock listed below. Distributions are payable June 30, 2006 to shareholders of record on June 15, 2006.

Series	Dividend Rate	Dividend Declared
Series F	8.750%	0.546875
Series H	7.000%	0.437500
Series I	6.875%	0.429688
Series K	7.950%	0.496875
Series L	7.600%	0.475000
Series M	7.200%	0.450000

Director Retirement

Effective May 1, 2006, Jack Steele retired as a director of the Company. Dr. Steele has served as a director for the Company since its inception in 1990.

Company Information

PSB is a self-advised and self-managed equity real estate investment trust (REIT) that acquires, develops, owns and operates commercial properties, primarily flex, multi-tenant office and industrial space. The Company defines flex space as buildings that are configured with a combination of office and warehouse space and can be designed to fit a number of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse space). As of March 31, 2006, PSB wholly owned approximately 17.9 million net rentable square feet of commercial space with approximately 3,300 customers located in eight states, concentrated in California (5.4 million sq. ft.), Texas (2.9 million sq. ft.), Florida (3.2 million sq. ft.), Oregon (1.4 million sq. ft.), Virginia (2.8 million sq. ft.), Maryland (1.6 million sq. ft.) and Arizona (0.7 million sq. ft.).

Forward-Looking Statements

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

Additional information about PS Business Parks, Inc., including more financial analysis of the first quarter operating results, is available on the Internet. The Company's website is www.psbusinessparks.com.

A conference call is scheduled for Tuesday, May 2, 2006, at 10:00 a.m. (PDT) to discuss the first quarter results. The toll free number is 1-800-399-4409; the conference ID is 7412541. The call will also be available via a live webcast on the Company's website. A replay of the conference call will be available through May 9, 2006 at 1-800-642-1687. A replay of the conference call will also be available on the Company's website.

Additional financial data attached.

PS BUSINESS PARKS, INC.
SELECTED FINANCIAL DATA
(unaudited, in thousands)

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	At March 31, 2006	At December 31,
Balance Sheet Data:		
Cash and cash equivalents.....	\$ 137,631	\$ 200,4
Properties held for disposition, net.....	\$ 4,082	\$ 6,1
Real estate facilities, before accumulated depreciation.....	\$ 1,647,241	\$ 1,572,3
Total assets.....	\$ 1,453,015	\$ 1,463,6
Total debt.....	\$ 25,726	\$ 25,8
Minority interest - common units.....	\$ 167,468	\$ 169,4
Minority interest - preferred units.....	\$ 135,750	\$ 135,7
Perpetual preferred stock.....	\$ 593,350	\$ 593,3
Common shareholders' equity.....	\$ 489,288	\$ 500,1
Total common shares outstanding at period end.....	21,344	21,5
Total common shares outstanding at period end, assuming conversion of all Operating Partnership units into common stock.....	28,649	28,8

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

	For the Three Months Ended March 31,	
	2006	2005
Revenues:		
Rental income.....	\$ 58,754	\$ 53,763
Facility management fees.....	149	145
Total operating revenues.....	58,903	53,908
Expenses:		
Cost of operations.....	17,946	15,870
Depreciation and amortization.....	20,586	18,426
General and administrative.....	1,650	1,438
Total operating expenses.....	40,182	35,734
Other income and expenses:		
Interest and other income.....	2,000	398
Interest expense.....	(513)	(282)
Total other income and expenses.....	1,487	116
Income from continuing operations before minority interests.....	20,208	18,290
Minority interests in continuing operations:		
Minority interest in income - preferred units.....	(2,781)	(2,691)
Minority interest in income - common units.....	(1,568)	(1,464)
Total minority interests in continuing operations...	(4,349)	(4,155)
Income from continuing operations	15,859	14,135

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Discontinued operations:			
(Loss) income from discontinued operations.....	(97)		1,035
Gain on disposition of real estate.....	711		2,914
Minority interest in earnings attributable to discontinued operations - common units.....	(156)		(991)
	-----	-----	
Income from discontinued operations.....	458		2,958
	-----	-----	
Net income.....	16,317		17,093
	-----	-----	
Net income allocable to preferred shareholders:			
Preferred distributions.....	11,255		9,769
	-----	-----	
Net income allocable to common shareholders.....	\$ 5,062	\$	7,324
	=====	=====	
Net income per common share - basic:			
Continuing operations.....	\$ 0.21	\$	0.20
Discontinued operations.....	\$ 0.02	\$	0.14
Net income.....	\$ 0.24	\$	0.34
Net income per common share - diluted:			
Continuing operations.....	\$ 0.21	\$	0.20
Discontinued operations.....	\$ 0.02	\$	0.13
Net income.....	\$ 0.23	\$	0.33
Weighted average common shares outstanding:			
Basic.....	21,437		21,852
	=====	=====	
Diluted.....	21,708		22,012
	=====	=====	

PS BUSINESS PARKS, INC.
 Computation of Funds from Operations ("FFO") and Funds Available for Distribution
 (unaudited, in thousands, except per share amounts)

For the Three Months Ended March
 31,

	2006	2005
	-----	-----
Computation of Diluted Funds From Operations		

per Common Share ("FFO") (1):		

Net income allocable to common shareholders.....	\$ 5,062	\$ 7,324
Adjustments:		
Gain on disposition of real estate.....	(711)	(2,914)
Depreciation and amortization.....	20,612	19,016
Minority interest in income - common units.....	1,724	2,455
	-----	-----
FFO allocable to common shareholders/unit holders.....	\$ 26,687	\$ 25,881
	=====	=====
Weighted average common shares outstanding.....	21,437	21,852
Weighted average common OP units outstanding.....	7,305	7,305
Weighted average common share equivalents outstanding...	271	160
	-----	-----
Weighted average common shares and OP units for purposes of computing fully-diluted FFO per common share.....	29,013	29,317
	=====	=====

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Diluted FFO per common share equivalent.....	\$0.92	\$0.88
	=====	=====
Computation of Funds Available for Distribution ("FAD") (2):		
FFO allocable to common shareholders.....	\$ 26,687	\$ 25,881
Adjustments:		
Maintenance capital expenditures.....	(1,004)	(339)
Tenant improvements.....	(3,543)	(6,447)
Lease commissions.....	(511)	(1,554)
Straight-line rent.....	(589)	(1,188)
Stock-based compensation expense.....	526	127
In-place rents adjustment.....	53	39
Lease incentives.....	130	-
	-----	-----
FAD.....	\$ 21,749	\$ 16,519
	=====	=====
Distributions to common shareholders/unit holders.....	\$ 8,308	\$ 8,461
	=====	=====
Distribution payout ratio.....	38.2%	51.2%
	=====	=====

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