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	**95-4300881**
(State or other jurisdiction of incorporation or organization)	*(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
Depositary 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
Depositary 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
Depositary 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
Depositary 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
Depositary 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
Depositary 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

Depositary 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 þ No o

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 o No þ

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 þ No o

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. þ

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

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

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 From 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))

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	December 31, 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.

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	

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 Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Paid-in Capital	Cumulative Net Income	Cumulative Distributions	Shareholders Equity
	(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 deprecation 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 payable

Mortgage 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)*:

				December 31, 2007		December 31, 2006	
Series	**Issuance Date**	**Earliest Potential Redemption Date**	**Dividend Rate**	**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)*:

				December 31, 2007		December 31, 2006	
Series	**Issuance Date**	**Earliest Potential Redemption Date**	**Dividend Rate**	**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 depository 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:

Options:	**Number of Options**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contract Life**	**Aggregate Intrinsic Value (in thousands)**
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

Restricted Stock Units:	**Number of Units**	**Weighted Average Grant Date Fair Value**
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

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)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2007					
escription	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciab Lives (Years)
roduce	San Francisco, CA		$ 776	$ 1,886	$ 299	$ 776	$ 2,185	$ 2961	$ 735	03/17/98	5-30
renshaw II	Torrance, CA		2,318	6,069	1,714	2,318	7,783	10,101	3,269	04/12/97	5-30
irport	San Francisco, CA		899	2,387	490	899	2,877	3,776	1,048	04/12/97	5-30
hristopher Ave	Gaithersburg, MD		475	1,203	383	475	1,586	2,061	664	04/12/97	5-30
onterey 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
ilwaukie I	Milwaukie, OR		1,125	2,857	1083	1,125	3,940	5,065	1,647	01/01/97	5-30
dwards Road	Cerritos, CA		450	1,217	757	450	1,974	2,424	749	01/01/97	5-30
ainier	Renton, WA		330	889	417	330	1,306	1,636	514	01/01/97	5-30
usk	San Diego, CA		1,500	3,738	1,689	1,500	5,427	6,927	2,268	01/01/97	5-30
isenhower	Alexandria, VA		1,440	3,635	1,909	1,440	5,544	6,984	2,424	01/01/97	5-30
cKellips	Tempe, AZ		195	522	509	195	1,031	1,226	528	01/01/97	5-30
ld Oakland Rd	San Jose, CA		3,458	8,765	2,298	3,458	11,063	14,521	4,453	01/01/97	5-30
nipero	Signal Hill, CA		900	2,510	378	900	2,888	3,788	1,131	01/01/97	5-30
orthgate Blvd.	Sacramento, CA		1,710	4,567	2,636	1,710	7,203	8,913	3,239	01/01/97	5-30
plander	Culver City, CA		3,252	8,157	4,314	3,252	12,471	15,723	5,532	01/01/97	5-30
niversity	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
. 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
eapwood Ave	Carson, CA		990	2,496	1,020	990	3,516	4,506	1,561	01/01/97	5-30
reat Oaks	Woodbridge, VA		1,350	3,398	1,151	1,350	4,549	5,899	2,038	01/01/97	5-30
entura Blvd. II	Studio City, CA		621	1,530	253	621	1,783	2,404	730	01/01/97	5-30
unston	Lorton, VA		4,146	17,872	2,936	4,146	20,808	24,954	8,789	06/17/98	5-30
anada	Lake Forest, CA		5,508	13,785	3,919	5,508	17,704	23,212	6,942	12/23/97	5-30
idge Route	Laguna Hills, CA		16,261	39,559	3,128	16,261	42,687	58,948	15,220	12/23/97	5-30
ake Forest ommerce Park	Laguna Hills, CA		2,037	5,051	3,390	2,037	8,441	10,478	4,176	12/23/97	5-30
uena Park ndustrial Center	Buena Park, CA		3,245	7,703	1,534	3,245	9,237	12,482	3,698	12/23/97	5-30
erritos Business enter	Cerritos, CA		4,218	10,273	2,895	4,218	13,168	17,386	5,123	12/23/97	5-30
arkway ommerce Center	Hayward, CA		4,398	10,433	3,556	4,398	13,989	18,387	5,070	12/23/97	5-30

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

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

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
reenbrier Court	Beaverton, OR	2,771	8,403	1,333	2,771	9,736	12,507	3,899	11/20/01	5-30

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

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2007					
cription	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total	Accumulated Depreciation	Date Acquired	Deprecia Lives (Years
erlake South-Bldg 1-8	Redmond, WA		7,913	14,067	352	7,913	14,419	22,332	1,886	02/16/07	5-30
erlake South-Bldg 9-13	Redmond, WA		4,639	8,247	161	4,639	8,408	13,047	1,074	02/16/07	5-30
erlake South-Bldg 16	Redmond, WA		4,265	7,583	254	4,265	7,837	12,102	1,137	02/16/07	5-30
erlake South-Bldg 17	Redmond, WA		1,564	2,781	50	1,564	2,831	4,395	421	02/16/07	5-30
erlake South-Retail	Redmond, WA		648	1,151	13	648	1,164	1,812	100	02/16/07	5-30
nmerce Campus	Santa Clara, CA		17,218	21,914	1,187	17,218	23,101	40,319	3,341	03/27/07	5-30
roaks Corporate Center	Fairfax, VA		8,951	16,740	123	8,951	16,863	25,814	701	08/03/07	5-30
stwood	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
nar 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
/ Highway	Garland, TX		480	1,203	500	480	1,703	2,183	638	01/01/97	5-30
il Valley	Missouri City, TX		360	918	541	360	1,459	1,819	670	01/01/97	5-30
iness 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
thgate II	Dallas, TX		1,274	5,505	2,219	1,274	7,724	8,998	3,352	05/04/98	5-30
pire Commerce	Dallas, TX		304	1,545	655	304	2,200	2,504	921	05/04/98	5-30
val Tech-Digital	Irving, TX		319	1,393	345	319	1,738	2,057	872	05/04/98	5-30

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

	Location	Encumbrances	Initial Cost to Company: Land	Initial Cost to Company: Buildings and Improvements	Cost Capitalized Subsequent to Acquisition: Buildings and Improvements	Gross Amount at Which Carried at December 31, 2007: Land	Gross Amount at Which Carried at December 31, 2007: Buildings and Improvements	Total	Accumulated Depreciation	Date Acquire
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
porate 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
ce	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
ffice	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
fice	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

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

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.