

Edgar Filing: TOWN & COUNTRY TRUST - Form SC 13G/A

TOWN & COUNTRY TRUST
Form SC 13G/A
March 06, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934
****EXIT FILING****
(Amendment No. 3)

TOWN & COUNTRY TRUST

(Name of Issuer)

COMMON

(Title of Class of Securities)

892081100

(CUSIP Number)

Date of Event which Requires Filing of this Statement

FEBRUARY 28, 2006

Check the appropriate box to designate the rule pursuant to which the Schedule is filed:

- Rule 13d-1(b)
 Rule 13d-1(c)
 Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in prior coverage.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SEC 1745 (12-02)

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Amendment No. 3 to Schedule 13G (continued)

CUSIP No. 892081100

1 NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Cohen & Steers, Inc. 14-1904657

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) []
(b) [x]

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

New York

NUMBER OF 5 SOLE VOTING POWER
SHARES 0

BENEFICIALLY OWNED BY 6 SHARED VOTING POWER
EACH 0

REPORTING PERSON 7 SOLE DISPOSITIVE POWER
WITH 0

8 SHARED DISPOSITIVE POWER
0

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

[]

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0%

12 TYPE OF REPORTING PERSON*

HC, CO

*SEE INSTRUCTIONS BEFORE FILLING OUT

Page 3 of 7 Pages

Amendment No. 3 Schedule 13G (continued)

CUSIP No. 892081100

1 NAME OF REPORTING PERSON

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S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Cohen & Steers Capital Management, Inc. 13-3353336

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) []
(b) [x]

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

New York

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5	SOLE VOTING POWER 0
	6	SHARED VOTING POWER 0
	7	SOLE DISPOSITIVE POWER 0
	8	SHARED DISPOSITIVE POWER 0

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

[]

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0%

12 TYPE OF REPORTING PERSON*

IA, CO

*SEE INSTRUCTIONS BEFORE FILLING OUT

Page 4 of 7 Pages

Item 1.

(a) Name of Issuer:
TOWN & COUNTRY TRUST

(b) Address of Issuer's Principal Executive Offices:
100 SOUTH CHARLES STREET
BALTIMORE, MD 21201

Item 2.

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- (a) Name of Persons Filing:
Cohen & Steers, Inc.
Cohen & Steers Capital Management, Inc.
- (b) Address of Principal Business Office:
280 Park Avenue
10th Floor
New York, NY 10017
- (c) Citizenship:
Cohen & Steers, Inc: Delaware Corporations
Cohen & Steers Capital Management, Inc: New York Corporation
- (d) Title of Class Securities:
Common
- (e) CUSIP Number:
892081100

Item 3. If this statement is filed pursuant to Rule 13d-1(b), or 13d-2(b), check whether the person filing is a

- (a) Broker or Dealer registered under Section 15 of the Act
- (b) Bank as defined in Section 3(a)(6) of the Act
- (c) Insurance Company as defined in section 3(a)(19) of the Act
- (d) Investment Company registered under Section 8 of the Investment Company Act
- (e) An investment advisor in accordance with Section 240.13d-1(b)(1)(ii)(E)
- (f) An employee benefit plan or endowment fund in accordance with 240.13d-1(b)(1)(ii)(F)
- (g) A parent holding company or control person in accordance with Section 240.13d-1(b)(1)(ii)(G)
- (h) A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813)
- (i) A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15U.S.C. 80a-3)
- (j) Group, in accordance with Section 240.13d-1(b)(1)(ii)(J)

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Item 4. OWNERSHIP:

- (a) Amount Beneficially Owned as of February 28, 2006:

See row 9 on cover sheet

- (b) Percent of Class:

See row 11 on cover sheet

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- (c) Number of shares as to which such person has:
- (i) sole power to vote or direct the vote:
See row 5 on cover sheet
 - (ii) shared power to vote or direct the vote:
See row 6 on cover sheet
 - (iii) sole power to dispose or to direct
the disposition of:
See row 7 on cover sheet
 - (iv) shared power to dispose or direct
the disposition of:
See row 8 on cover sheet

- Item 5. OWNERSHIP OF 5% OR LESS OF A CLASS
This statement is being filed to report that as of the date hereof the reporting persons have ceased to be the beneficial owners of more than 5% of the class of securities
- Item 6. OWNERSHIP OF MORE THAN 5% ON BEHALF OF ANOTHER PERSON
N/A
- Item 7. IDENTIFICATION AND CLASSIFICATION OF THE SUBSIDIARY WHICH ACQUIRED THE SECURITY BEING REPORTED ON BY THE PARENT HOLDING COMPANY

Cohen & Steers, Inc holds a 100% interest in Cohen & Steers Capital Management, Inc., an investment advisor registered under Section 203 of the Investment Advisers Act.
- Item 8. IDENTIFICATION AND CLASSIFICATION OF MEMBERS OF THE GROUP

Cohen & Steers, Inc holds a 100% interest in Cohen & Steers Capital Management, Inc., an investment advisor registered under Section 203 of the Investment Advisers Act.
- Item 9 NOTICE OF DISSOLUTION OF GROUP:
Not Applicable

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Item 10 Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired in connection with or as a participant in any transaction having that purpose or effect.

Signature

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After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: March 6, 2006

/s/Robert Steers

Signature

Robert H. Steers, Co-Chairman and Co Chief Executive Officer
Cohen & Steers, Inc.
Cohen & Steers Capital Management, Inc.

Name and Title

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JOINT FILING AGREEMENT

In accordance with Rule 13d-1(k) promulgated under the Securities Exchange Act of 1934, as amended, the undersigned hereby agree to the joint filing with all other Reporting Persons (as such term is defined in the Schedule 13G referred to below) on behalf of each of them of a Statement on Schedule 13G including amendments thereto) with respect to the common shares of TOWN & COUNTRY TRUST, and that this Agreement may be included as an Exhibit to such joint filing. This Agreement may be executed in any number of counterparts, all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned hereby execute this Agreement as of March 10, 2006.

COHEN & STEERS, INC.

/s/Robert Steers

By:-----

Name: Robert H. Steers
Title: Co-Chariman and Co-Chief
Executive Officer

COHEN & STEERS CAPITAL MANAGEMENT, INC.

/s/Robert Steers

By:-----

Name: Robert H. Steers
Title: Co-Chairman and Co-Chief
Executive Officer

\$ 85,347 \$ 81,675 \$ 81,408 \$ 96,814 \$ 92,148

	For the Years Ended December 31,					
	2008	2007	2006	2005	2004	
	(In thousands, except per share data)					
Per Common Share:						
Cash Distribution	\$ 1.76	\$ 1.61	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16
Net income basic	\$ 1.13	\$ 0.82	\$ 0.77	\$ 1.48	\$ 1.34	\$ 1.34
Net income diluted	\$ 1.12	\$ 0.81	\$ 0.77	\$ 1.47	\$ 1.33	\$ 1.33
Weighted average common shares basic	20,443	21,313	21,335	21,826	21,767	21,767
Weighted average common shares diluted	20,618	21,573	21,584	21,970	21,911	21,911
Balance Sheet Data:						
Total assets	\$ 1,469,323	\$ 1,516,583	\$ 1,463,599	\$ 1,463,794	\$ 1,366,768	\$ 1,366,768
Total debt	\$ 59,308	\$ 60,725	\$ 67,048	\$ 25,893	\$ 11,367	\$ 11,367
Preferred stock called for redemption	\$	\$	\$ 50,000	\$	\$	\$
Equity:						
PS Business Parks, Inc. s shareholders equity:						
Preferred stock	\$ 706,250	\$ 716,250	\$ 572,500	\$ 593,350	\$ 510,850	\$ 510,850
Common stock	\$ 414,564	\$ 439,330	\$ 482,703	\$ 500,108	\$ 506,114	\$ 506,114
Noncontrolling interests:						
Preferred units	\$ 94,750	\$ 94,750	\$ 82,750	\$ 135,750	\$ 127,750	\$ 127,750
Common units	\$ 148,023	\$ 154,470	\$ 165,469	\$ 169,451	\$ 169,295	\$ 169,295
Other Data:						
Net cash provided by operating activities	\$ 189,337	\$ 184,094	\$ 166,134	\$ 148,828	\$ 152,166	\$ 152,166
Net cash (used in) provided by investing activities	\$ (35,192)	\$ (180,188)	\$ (169,986)	\$ 24,389	\$ (26,108)	\$ (26,108)
Net cash used in financing activities	\$ (134,171)	\$ (35,882)	\$ (129,694)	\$ (13,058)	\$ (91,971)	\$ (91,971)
Funds from operations ⁽¹⁾	\$ 131,323	\$ 122,213	\$ 106,101	\$ 102,422	\$ 97,195	\$ 97,195
Square footage owned at end of period	19,556	19,556	18,687	17,555	17,988	17,988

(1) Funds from operations (F F O) is computed in accordance with the White Paper on F F O approved by the Board of Governors of NAREIT. The White Paper defines FFO as

net income, computed in accordance with GAAP, before depreciation, amortization, gains or losses on asset dispositions and nonrecurring items. FFO should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of operating performance or liquidity as it does not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs and could materially impact the Company's results of operations. Other REITs may use different methods for calculating FFO

a n d ,
accordingly, the
Company s FFO
may not be
comparable to
that of other real
e s t a t e
companies. See
I t e m 7 ,
Management s
Discussion and
Analysis of
Financial
Condition and
Results of
Operations
Liquidity and
C a p i t a l
Resources
Funds from
Operations, for a
reconciliation of
FFO and net
income allocable
t o c o m m o n
shareholders and
for information
o n w h y t h e
C o m p a n y
presents FFO.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the selected financial data and the Company s consolidated financial statements and notes thereto included elsewhere in the Form 10-K/A.

Forward-Looking Statements: Forward-looking statements are made throughout this Annual Report on Form 10-K/A. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words may, believes, anticipates, plans, expects, seeks, estimates, intends, and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading Item 1A. Risk Factors in the Original Filing. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of the information contained in such forward-looking statements should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no

obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements except as required by law.

Overview

As of December 31, 2008, the Company owned and operated approximately 19.6 million rentable square feet of multi-tenant flex, industrial and office properties located in eight states.

The Company focuses on increasing profitability and cash flow aimed at maximizing shareholder value. The Company strives to maintain high occupancy levels while increasing rental rates when market conditions allow. The Company also acquires properties it believes will create long-term value, and from time to time disposes of properties which no longer fit within the Company's strategic objectives or in situations where the Company believes it can optimize cash proceeds. Operating results are driven by income from rental operations and are therefore substantially influenced by rental demand for space within our properties.

The Company successfully leased or re-leased 5.1 million square feet of space in 2008 and achieved an overall weighted average occupancy of 93.5% for 2008. During 2008, the Company experienced a modest increase in effective rental rates compared to 2007. Total net operating income increased by \$8.6 million or 4.6% from the year ended December 31, 2007 to 2008. See further discussion of operating results below.

Critical Accounting Policies and Estimates:

Our accounting policies are described in Note 2 to the consolidated financial statements included in this Form 10-K/A. We believe our most critical accounting policies relate to revenue recognition, allowance for doubtful accounts, impairment of long-lived assets, depreciation, accruals of operating expenses and accruals for contingencies, each of which we discuss below.

Revenue Recognition: We recognize revenue in accordance with Staff Accounting Bulletin No. 104 of the Securities and Exchange Commission, Revenue Recognition in Financial Statements (SAB 104), as amended. SAB 104 requires that the following 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 or 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 rental income in the period the applicable costs are incurred.

Property Acquisitions: In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, we allocate the purchase price of acquired properties to land, buildings and equipment and identified tangible and intangible assets and liabilities associated with in-place leases (including tenant improvements, unamortized lease 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.

In determining the fair value of the tangible assets of the acquired properties, management 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 acquired and liabilities assumed. 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 lease commissions are based on current market replacement costs and other market rate information.

The value allocable to the above-market or below-market in-place lease values of acquired properties is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual rents 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 amounts allocated to above-market or below-market leases are included in other assets or other liabilities in the accompanying consolidated balance sheets and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases.

Allowance for Doubtful Accounts: Rental revenue from our tenants is our principal source of revenue. We monitor the collectibility of our receivable balances including the deferred rent receivable on an ongoing basis. Based on these reviews, we maintain an allowance for doubtful accounts for estimated losses resulting from the possible inability of our tenants to make required rent payments to us. Tenant receivables and deferred rent receivables are carried net of the allowances for uncollectible tenant receivables and deferred rent. As discussed below, determination of the adequacy of these allowances requires significant judgments and estimates. Our estimate of the required allowance is subject to revision as the factors discussed below change and is sensitive to the effect of economic and market conditions on our tenants.

Tenant receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes and other expenses recoverable from tenants. Determination of the adequacy of the allowance for uncollectible current tenant receivables is performed using a methodology that incorporates specific identification, aging analysis, an overall evaluation of the historical loss trends and the current economic and business environment. The specific identification methodology relies on factors such as the age and nature of the receivables, the payment history and financial condition of the tenant, the assessment of the tenant's ability to meet its lease obligations, and the status of negotiations of any disputes with the tenant. The allowance also includes a reserve based on historical loss trends not associated with any specific tenant. This reserve as well as the specific identification reserve is reevaluated quarterly based on economic conditions and the current business environment.

Deferred rent receivable represents the amount that the cumulative straight-line rental income recorded to date exceeds cash rents billed to date under the lease agreement. Given the long-term nature of these types of receivables, determination of the adequacy of the allowance for unbilled deferred rent receivable is based primarily on historical loss experience. Management evaluates the allowance for unbilled deferred rent receivable using a specific identification methodology for significant tenants designed to assess their financial condition and ability to meet their lease obligations.

Impairment of Long-Lived Assets: The Company evaluates a property for potential impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. On a quarterly basis we evaluate our entire portfolio for impairment based on current operating information. In the event that these periodic assessments reflect that the carrying amount of a property exceeds the sum of the undiscounted cash flows (excluding interest) that are expected to result from the use and eventual disposition of the property, the Company would recognize an impairment loss to the extent the carrying amount exceeded the estimated fair value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on subjective assumptions dependent upon future and current market conditions and events that affect the ultimate value of the property. Management must make assumptions related to the property such as future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, occupancy levels and the estimated proceeds generated from the future sale of the property. These assumptions could differ materially from actual results in future periods. Since SFAS No. 144,

Accounting for the Impairment or Disposal of Long-Lived Assets, provides that the future cash flows used in this analysis be considered on an undiscounted basis, our intent to hold properties over the long-term directly decreases the likelihood of recording an impairment loss. If our strategy changes or if market conditions otherwise dictate an earlier sale date, an impairment loss could be recognized, and such loss could be material.

Depreciation: We compute depreciation on our buildings and equipment using the straight-line method based on estimated useful lives of generally 30 and five years, respectively. A significant portion of the acquisition cost of each property is allocated to building and building components. The allocation of the acquisition cost to building and building components, as well as the determination of their useful lives, are based on estimates. If we do not appropriately allocate to these components or we incorrectly estimate the useful lives of these components, our computation of depreciation expense may not appropriately reflect the actual impact of these costs over future periods,

which will affect net income. In addition, the net book value of real estate assets could

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be overstated or understated. The statement of cash flows, however, would not be affected.

Accruals of Operating Expenses: The Company accrues for property tax expenses, performance bonuses and other operating expenses each quarter based on historical trends and anticipated disbursements. If these estimates are incorrect, the timing and amount of expense recognized will be affected.

Accruals for Contingencies: The Company is exposed to business and legal liability risks with respect to events that may have occurred, but in accordance with GAAP has not accrued for such potential liabilities because the loss is either not probable or not estimable. Future events and the result of pending litigation could result in such potential losses becoming probable and estimable, which could have a material adverse impact on our financial condition or results of operations.

Effect of Economic Conditions on the Company's Operations: During 2008, the weakening economic conditions were reflected in commercial real estate as the Company experienced a decrease in new rental rates over expiring rental rates as well as declining occupancy levels in the second half of 2008. It is uncertain what impact the current recession will have on the Company's ability to maintain current occupancy levels and rental rates. A continued weakening in the economy may have a significant impact on the Company, potentially resulting in lower occupancy and reduced rental rates.

While the Company historically has experienced a low level of write-offs due to bankruptcy, there is inherent uncertainty in a tenant's ability to continue paying rent when in bankruptcy. As of December 31, 2008, the Company had approximately 33,000 square feet occupied by tenants that are protected by Chapter 11 of the U.S. Bankruptcy Code. Several other tenants have contacted us, requesting early termination of their lease, reduction in space under lease, rent deferment or abatement. At this time, the Company cannot anticipate what impact, if any, the ultimate outcome of these discussions will have on our operating results.

Company Performance and Effect of Economic Conditions on Primary Markets: The Company has concentrated its operations in 10 regions. The Company's assessment of these regions as of December 31, 2008 is summarized below. During the year ended December 31, 2008, rental rates on new and renewed leases within the Company's overall portfolio decreased 0.9% over expiring rents. Each of the 10 regions in which the Company owns assets is subject to its own unique market influences. The Company has outlined the various market influences for each specific region below. In addition, the Company has compiled market occupancy information using third party reports for each of the respective markets. These sources are deemed to be reliable by the Company, but there can be no assurance that these reports are accurate.

The Company owns approximately 4.0 million square feet in Southern California in Los Angeles, Orange and San Diego Counties. Market vacancies have increased due to the continued weakening in the economy combined with the lack of credit availability and its effect on businesses. These factors have also created significantly more competition for tenants. Vacancy rates in Southern California range from 2.2% to 15.4%. The Company's vacancy rate in this region at December 31, 2008 was 8.5%. For the year ended December 31, 2008, the overall market experienced negative net absorption of 0.6% for the reasons noted above as well as the completion of newly constructed space in 2008. The Company's weighted average occupancy for the region decreased from 94.8% in 2007 to 93.8% in 2008. Realized rent per square foot increased 2.3% from \$17.06 per square foot in 2007 to \$17.46 per square foot in 2008.

The Company owns approximately 1.8 million square feet in Northern California with concentrations in Sacramento, the East Bay (Hayward and San Ramon) and Silicon Valley (San Jose and Santa Clara). Vacancy rates in these submarkets are 16.6%, 19.4% and 14.7%, respectively. The Company's vacancy rate in its Northern California portfolio at December 31, 2008 was 8.7%. Demand in these submarkets slowed measurably in the second half of 2008. The time necessary to execute a transaction has lengthened as tenants weigh their options and negotiate on concessions. During the second half of 2008, lease renewals and short-term leases were the most common leasing activity in the market as firms are seeking ways of reducing costs. For the year ended December 31, 2008, the combined submarkets noted above experienced negative net absorption of 0.1%. The Company's weighted average occupancy in this region increased from 90.9% in 2007 to 92.0% in 2008. Realized rent per square foot increased 3.1% from \$13.89 per square foot in 2007 to \$14.32 per square foot in 2008.

The Company owns approximately 1.2 million square feet in Southern Texas, specifically in the Austin and Houston markets. Market vacancy rates are 11.0% in the Austin market and 11.8% in the Houston market. The Company's vacancy rate for these combined markets at December 31, 2008 was 7.5%. During the first half of 2008, job growth in both the Austin and Houston markets along with the strong oil and gas industry in the Houston market increased leasing activity. However, during the second half of 2008, demand eased in these markets. For the year ended December 31, 2008, the combined markets experienced positive net absorption of 1.0%. The Company's weighted average occupancy in this region increased from 94.1% in 2007 to 94.6% in 2008. Realized rent per square foot increased 5.8% from \$10.85 per square foot in 2007 to \$11.48 per square foot in 2008.

The Company owns approximately 1.7 million square feet in Northern Texas, primarily located in the Dallas Metroplex market. The market vacancy rate in Las Colinas, where significant concentrations of the Company's properties are located, is 10.1%. The Company's vacancy rate at December 31, 2008 in this market was 5.4%. For the year ended December 31, 2008, the market experienced positive net absorption of 1.2% as the result of modest job growth. During 2008, modest new construction continued, which included both speculative construction, as well as owner-user construction. Despite the new construction, the Company has experienced a modest level of leasing activity during 2008 generating rental rate growth and higher occupancy. The Company's weighted average occupancy for the region increased from 86.3% in 2007 to 93.3% in 2008. Realized rent per square foot increased 3.6% from \$10.40 per square foot in 2007 to \$10.77 per square foot in 2008 as rental rates increased modestly over expiring leases. However, new construction scheduled to be completed in 2009 and the broad economic recession could have an impact on the Company's ability to maintain occupancy and generate rental rate growth within the Company's portfolio.

The Company owns approximately 3.6 million square feet in South Florida, which consists of MICC business park located in the Airport West submarket of Miami-Dade County and two multi-tenant flex parks located in Palm Beach County. While the saturation of the condominium and housing markets in Miami has negatively impacted its overall economy, it has had little impact on international trade-based assets, such as industrial and flex space, which constitutes the majority of the Company's South Florida portfolio. MICC is located less than one mile from the cargo entrance of the Miami International Airport, which is one of the most active ports in the United States. The Company acquired two assets in Palm Beach County at the end of 2006, comprising 398,000 square feet. The downturn in the housing market and slowing economy have adversely affected Palm Beach County. Market vacancy rates for Miami-Dade County and Palm Beach County are 6.8% and 8.4%, respectively, compared with the Company's South Florida vacancy rate of 3.2% at December 31, 2008. For the year ended December 31, 2008, the combined markets experienced negative net absorption of 0.7%. The Company's weighted average occupancy in this region outperformed the market and remained strong, decreasing from 97.7% in 2007 to 96.4% in 2008. Realized rent per square foot increased 4.7% from \$8.97 per square foot in 2007 to \$9.39 per square foot in 2008 as a result of higher rental rates on leases executed in 2007 and early 2008 over in-place rents.

The Company owns approximately 3.0 million square feet in the Northern Virginia submarket of Washington D.C., where the average market vacancy rate is 12.0%. The Company's vacancy rate at December 31, 2008 was 5.7%. Vacancy rates in this market increased as new supply outpaced demand coupled with tenants downsizing their existing space due to the economic recession. The increase in sublease space and decrease in demand has lengthened the time of lease negotiation as tenants weigh their options and negotiate on tenant improvements. Higher concessions are more prevalent as landlords entice prospective tenants. Despite the recent trends and slowdown, the market experienced positive net absorption of 0.8%. The Company's realized rent per square foot increased 4.2% from \$19.49 per square foot in 2007 to \$20.30 per square foot in 2008. The Company's weighted average occupancy increased from 94.4% in 2007 to 96.6% in 2008.

The Company owns approximately 1.8 million square feet in the Maryland submarket of Washington D.C. The Company's vacancy rate in the region at December 31, 2008 was 6.1% compared to 11.5% for the market as a whole. The market vacancy rate increased as new developments are completed with limited preleasing activities combined with more companies contracting and reorganizing business operations. For the year ended December 31, 2008, the market experienced negative net absorption of 0.5%, which is attributed to a decrease in demand for large blocks of space due to the slowing economy. The Company's weighted average occupancy decreased from 94.7% in 2007 to

91.8% in 2008. The decrease in occupancy was primarily related to a 67,000 square foot tenant vacating its space at the end of 2007. Realized rent per square foot increased 0.8% from \$23.18 per square foot in 2007 to \$23.36 per square foot in 2008.

The Company owns approximately 1.3 million square feet in the Beaverton submarket of Portland, Oregon. The market vacancy rate in this region is 17.7%. The Company's vacancy rate in the market was 17.6% at December 31, 2008. Recent economic trends and the economic recession have resulted in increases in both vacancy rates and rent concessions in the market. For the year ended December 31, 2008, the market experienced negative net absorption of 3.7%. The Company's weighted average occupancy decreased from 89.0% in 2007 to 84.0% in 2008 primarily related to a 120,000 square foot tenant vacating its space during the second quarter of 2008. Despite the recent trends and slowdown, realized rent per square foot increased 7.1% from \$15.63 per square foot in 2007 to \$16.74 per square foot in 2008. The increase was primarily the result of the impact on 2007 realized rent per foot from write-offs related to business failures during the year ended December 31, 2007.

The Company owns approximately 679,000 square feet in the Phoenix and Tempe submarkets of Arizona. Market vacancies increased significantly due in part to the number of housing-related tenants who have vacated space combined with companies contracting and reorganizing business operations, creating significantly more competition for tenants. During 2008, significant construction of buildings has impacted the Company's portfolio and may result in higher lease concessions while limiting the Company's ability to generate rental rate growth. The market vacancy rate is 11.1% compared to the Company's vacancy rate of 12.7% at December 31, 2008. For the year ended December 31, 2008, despite the decrease in demand, the market experienced positive net absorption of 0.3%. Although demand for space has subsided, realized rent per square foot increased 3.4% from \$11.49 per square foot in 2007 to \$11.88 per square foot in 2008. The Company's weighted average occupancy in the region decreased from 89.4% in 2007 to 86.9% in 2008.

The Company owns approximately 521,000 square feet in the state of Washington. In 2007, the Company acquired Overlake Business Center, a 493,000 square foot multi-tenant office and flex business park located in Redmond, Washington. The weakened aerospace manufacturing industry and global economic slowdown has resulted in fewer imports and exports resulting in a softened demand in this market. Despite these factors, this market experienced positive net absorption of 0.8% for the year ended December 31, 2008 primarily due to the steady technology industry in the first half of 2008. The Company's vacancy rate in this region at December 31, 2008 was 7.4% compared to 8.9% for the market as a whole. The Company's weighted average occupancy increased from 89.5% in 2007 to 94.2% in 2008. Realized rent per square foot increased 9.5% from \$17.62 per square foot in 2007 to \$19.30 per square foot in 2008.

Growth of the Company's Operations and Acquisitions and Dispositions of Properties: The Company is focused on maximizing cash flow from its existing portfolio of properties by expanding its presence in existing and new markets through strategic acquisitions and the disposition of non-strategic assets. The Company has historically maintained a low-leverage-level approach intended to provide the Company with the flexibility for future growth.

The Company made no acquisitions during the year ended December 31, 2008.

In 2007, the Company acquired 870,000 square feet for an aggregate cost of \$140.6 million. 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; Commerce Campus, a 252,000 square foot multi-tenant office and flex business park located in Santa Clara, California, for \$39.2 million; and Fair Oaks Corporate Center, a 125,000 square foot multi-tenant office park located in Fairfax, Virginia, for \$25.4 million.

In 2006, the Company added 1.2 million square feet to its portfolio at an aggregate cost of \$180.3 million. The Company acquired WesTech Business Park, a 366,000 square foot office and flex park in Silver Spring, Maryland, for \$69.3 million; 88,800 square feet of multi-tenant flex buildings in Signal Hill, California, for \$10.7 million; a 107,300 square foot multi-tenant flex park in Chantilly, Virginia, for \$15.8 million; Meadows Corporate Park, a 165,000 square foot multi-tenant office park in Silver Spring, Maryland, for \$29.9 million; Rogers Avenue, a 66,500 square foot multi-tenant industrial and flex park in San Jose, California, for \$8.4 million; and Boca Commerce Park and Wellington Commerce Park, two multi-tenant industrial, flex and storage parks, aggregating 398,000 square feet, located in Palm Beach County, Florida, for \$46.2 million. In connection with the Meadows Corporate Park purchase, the Company assumed a \$16.8 million mortgage with a fixed interest rate of 7.20% through November, 2011, at which time it can be prepaid without penalty. 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%.

During 2006, the Company sold a 30,500 square foot building located in Beaverton, Oregon, for \$4.4 million, resulting in a net gain of \$1.5 million. Additionally in 2006, the Company sold 32,400 square feet in Miami for a combined total of \$3.7 million, resulting in a gain of \$865,000.

Scheduled Lease Expirations: In addition to the 1.4 million square feet, or 7.3%, of currently available space in our total portfolio, leases representing approximately 24.1% of the leased square footage of our total portfolio are scheduled to expire in 2009. Our ability to re-lease available space depends upon the market conditions in the specific submarkets in which our properties are located.

Impact of Inflation: Although inflation has not been significant in recent years, it remains a factor in our economy, and the Company continues to seek ways to mitigate its potential impact. A substantial portion of the Company's leases require tenants to pay operating expenses, including real estate taxes, utilities, and insurance, as well as increases in common area expenses, partially reducing the Company's exposure to inflation. During 2007 and 2008, the Company experienced modest increases in certain operating costs, including repairs and maintenance, property insurance and utility costs affecting the Company's overall profit margin.

Concentration of Portfolio by Region: Rental income, cost of operations and rental income less cost of operations, excluding depreciation and amortization or net operating income prior to depreciation and amortization (defined as NOI for purposes of the following table) from continuing operations are summarized below for the year ended December 31, 2008 by major geographic region. The Company uses NOI and its components as a measurement of the performance of its commercial real estate. Management believes that these financial measures provide them as well as the investor the most consistent measurement on a comparative basis of the performance of the commercial real estate and its contribution to the value of the Company. Depreciation and amortization have been excluded from these financial measures as they are generally not used in determining the value of commercial real estate by management or the investment community. Depreciation and amortization are generally not used in determining value as they consider the historical costs of an asset compared to its current value; therefore, to understand the effect of the assets historical cost on the Company's results, investors should look at GAAP financial measures, such as total operating costs including depreciation and amortization. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP. The table below reflects rental income, operating expenses and NOI from continuing operations for the year ended December 31, 2008 based on geographical concentration. The total of all regions is equal to the amount of rental income and cost of operations recorded by the Company in accordance with GAAP. As part of the table below, we have shown the effect of depreciation and amortization on NOI. We have reconciled NOI to income from continuing operations in the table under Results of Operations below. The percent of total by region reflects the actual contribution to rental income, cost of operations and NOI during the period (*in thousands*):

Region	Weighted Square Footage	Percent of Total	Rental Income	Percent of Total	Cost of Operations	Percent of Total	NOI	Percent of Total
Southern California	3,988	20.4%	\$ 65,317	23.0%	\$ 17,866	20.2%	\$ 47,451	24.3%
Northern California	1,818	9.3%	23,939	8.4%	6,862	7.8%	17,077	8.8%
Southern Texas	1,161	5.9%	12,616	4.5%	5,495	6.2%	7,121	3.7%
Northern Texas	1,689	8.6%	16,964	6.0%	6,011	6.8%	10,953	5.6%
South Florida	3,596	18.4%	32,555	11.5%	10,316	11.7%	22,239	11.4%
Virginia	3,020	15.4%	59,192	20.9%	17,250	19.5%	41,942	21.5%
Maryland	1,770	9.1%	37,977	13.4%	11,992	13.6%	25,985	13.3%
Oregon	1,314	6.7%	18,466	6.5%	7,019	7.9%	11,447	5.9%
Arizona	679	3.5%	7,006	2.5%	3,013	3.4%	3,993	2.0%
Washington	521	2.7%	9,471	3.3%	2,618	2.9%	6,853	3.5%
Total before depreciation and amortization	19,556	100.0%	283,503	100.0%	88,442	100.0%	195,061	100.0%
Depreciation and amortization					99,848		(99,848)	
Total based on GAAP			\$ 283,503		\$ 188,290		\$ 95,213	

Concentration of Credit Risk by Industry: The information below depicts the industry concentration of our tenant base as of December 31, 2008. The Company analyzes this concentration to minimize significant industry exposure risk.

Industry	% of Total Annualized Rental Income
Business services	13.2%
Health services	10.3%
Computer hardware, software and related services	9.3%
Warehouse, distribution, transportation and logistics	8.7%
Government	8.4%
Insurance and financial services	7.8%
Engineering and construction	7.7%
Retail, food and automotive	6.3%
Communications	5.7%
Home furnishing	3.8%
Electronics	3.5%

Educational services	3.0%
Aerospace/defense products and services	2.3%
Total	90.0%

The information below depicts the Company's top 10 customers by annualized rental income as of December 31, 2008 (*in thousands*):

Tenants	Square Footage	Annualized Rental Income (1)	% of Total Annualized Rental Income
U.S. Government	486	\$ 12,684	4.4%
Kaiser Permanente	186	4,302	1.5%
Wells Fargo Bank	102	1,749	0.6%
AARP	102	1,676	0.6%
Northrop Grumman	57	1,649	0.6%
Raytheon	82	1,495	0.5%
American Intercontinental University	75	1,405	0.5%
Verizon	72	1,350	0.5%
Intel Corporation	94	1,348	0.5%
Montgomery County Public School	47	1,329	0.5%
Total	1,303	\$ 28,987	10.2%

(1) For leases expiring prior to December 31, 2009, annualized rental income represents income to be received under existing leases from December 31, 2008 through the date of expiration.

Comparison of 2008 to 2007

Results of Operations: Net income for the year ended December 31, 2008 was \$85.3 million compared to \$81.7 million for the year ended December 31, 2007. Net income allocable to common shareholders for the year ended December 31, 2008 was \$23.2 million compared to \$17.5 million for the year ended December 31, 2007. Net income per common share on a diluted basis was \$1.12 for the year ended December 31, 2008 compared to \$0.81 for the year ended December 31, 2007 (based on weighted average diluted common shares outstanding of 20,618,000 and 21,573,000, respectively). The increase in net income allocable to common shareholders was due to an increase in net operating income of \$8.6 million combined with the net gain of \$4.2 million on the repurchase of preferred stock offset by a decrease in interest and other income of \$3.6 million and an increase in the allocation of net income to noncontrolling interests of \$2.3 million.

The following table presents the operating results of the properties for the years ended December 31, 2008 and 2007 in addition to other income and expense items affecting income from continuing operations. The Company breaks out Same Park operations to provide information regarding trends for properties the Company has held for the periods being compared (*in thousands, except per square foot data*):

	For the Years Ended December			
	2008	31,	2007	Change
Rental income:				
Same Park (18.7 million rentable square feet) ⁽¹⁾	\$ 268,248		\$ 260,632	2.9%
Non-Same Park (870,000 rentable square feet) ⁽²⁾	15,255		10,143	50.4%
Total rental income	283,503		270,775	4.7%
Cost of operations:				
Same Park	83,721		80,779	3.6%
Non-Same Park	4,721		3,581	31.8%
Total cost of operations	88,442		84,360	4.8%
Net operating income ⁽³⁾ :				
Same Park	184,527		179,853	2.6%
Non-Same Park	10,534		6,562	60.5%
Total net operating income	195,061		186,415	4.6%
Other income and expenses:				
Facility management fees	728		724	0.6%
Interest and other income	1,457		5,104	(71.5%)
Interest expense	(3,952)		(4,130)	(4.3%)
Depreciation and amortization	(99,848)		(98,521)	1.3%
General and administrative	(8,099)		(7,917)	2.3%
Income from continuing operations	\$ 85,347		\$ 81,675	4.5%
Same Park gross margin ⁽⁴⁾	68.8%		69.0%	(0.3%)
Same Park weighted average for the period:				
Occupancy	93.7%		93.7%	
Realized rent per square foot ⁽⁵⁾	\$ 15.32		\$ 14.89	2.9%

- (1) See below for a definition of Same Park.
- (2) See below for a definition of Non-Same Park.
- (3) Net operating income (NOI) is an important measurement in the commercial real estate industry for determining the value of the real estate generating the NOI. See Concentration of Portfolio by Region above for more information on NOI. The Company s calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with GAAP.
- (4) Same Park gross margin is computed by dividing Same Park NOI by Same Park rental income.
- (5) Same Park realized rent per square foot

represents the
Same Park rental
income earned
per occupied
square foot.

Supplemental Property Data and Trends: In order to evaluate the performance of the Company's overall portfolio over two given years, management analyzes the operating performance of a consistent group of properties owned and operated throughout both years (herein referred to as "Same Park"). Operating properties that the Company acquired subsequent to January 1, 2007 are referred to as "Non-Same Park." For 2008 and 2007, the Same Park facilities constitute 18.7 million rentable square feet, which includes all assets the Company owned and operated from January 1, 2007 through December 31, 2008, representing approximately 95.5% of the total square footage of the Company's portfolio for 2008.

Rental income, cost of operations and rental income less cost of operations, excluding depreciation and amortization, or net operating income prior to depreciation and amortization (defined as "NOI" for purposes of the following table) from continuing operations summarized for the years ended December 31, 2008 and 2007 by major geographic region below. See "Concentration of Portfolio by Region" above for more information on NOI, including why the Company presents NOI and how the Company uses NOI. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP.

The following table summarizes the Same Park operating results by major geographic region for the years ended December 31, 2008 and 2007. In addition, the table reflects the comparative impact on the overall rental income, cost of operations and NOI from properties that have been acquired since January 1, 2007, and the impact of such is included in Non-Same Park facilities in the table below (*in thousands*):

Region	Rental Income		Increase (Decrease)	Cost of Operations		Increase (Decrease)	NOI		Increase (Decrease)
	December 31, 2008	December 31, 2007		December 31, 2008	December 31, 2007		December 31, 2008	December 31, 2007	
Southern California	\$ 65,317	\$ 64,474	1.3%	\$ 17,866	\$ 17,483	2.2%	\$ 47,451	\$ 46,991	1.0%
Northern California	20,890	20,221	3.3%	5,728	5,673	1.0%	15,162	14,548	4.2%
Southern Texas	12,616	11,848	6.5%	5,495	5,153	6.6%	7,121	6,695	6.4%
Northern Texas	16,964	15,162	11.9%	6,011	5,764	4.3%	10,953	9,398	16.5%
South Florida	32,555	31,514	3.3%	10,316	10,060	2.5%	22,239	21,454	3.7%
Virginia	56,108	52,957	6.0%	16,169	15,226	6.2%	39,939	37,731	5.9%
Maryland	37,977	38,873	(2.3%)	11,992	11,746	2.1%	25,985	27,127	(4.2%)
Oregon	18,466	18,278	1.0%	7,019	6,659	5.4%	11,447	11,619	(1.5%)
Arizona	7,006	6,976	0.4%	3,013	2,904	3.8%	3,993	4,072	(1.9%)
Washington	349	329	6.1%	112	111	0.9%	237	218	8.7%
Total Same Park	268,248	260,632	2.9%	83,721	80,779	3.6%	184,527	179,853	2.6%
Non-Same Park	15,255	10,143	50.4%	4,721	3,581	31.8%	10,534	6,562	60.5%
Total before depreciation and amortization	283,503	270,775	4.7%	88,442	84,360	4.8%	195,061	186,415	4.6%

Depreciation and amortization				99,848	98,521	1.3%	(99,848)	(98,521)	1.3%
Total based on GAAP	\$ 283,503	\$ 270,775	4.7%	\$ 188,290	\$ 182,881	3.0%	\$ 95,213	\$ 87,894	8.3%

Revenues: Revenues increased \$12.7 million for the year ended December 31, 2008 over the same period in 2007. The increase in revenue was due to an increase in Non-Same Park revenue of 50.4%, or \$5.1 million, primarily due to higher rental and occupancy rates. In addition, Same Park revenue increased by 2.9%, or \$7.6 million, primarily due to higher rental rates.

Facility Management Operations: The Company's facility management operations account for a small portion of the Company's net income. During the year ended December 31, 2008, \$728,000 of revenue was recognized from facility management fees compared to \$724,000 for the year ended December 31, 2007.

Cost of Operations: Cost of operations for the year ended December 31, 2008 was \$88.4 million compared to \$84.4 million for the same period in 2007, an increase of \$4.1 million, or 4.8%. Assets acquired in 2007 accounted for \$1.1 million, or 27.9%, of the increase. The increase in cost of operations was primarily due to an increase in property taxes of \$2.6 million as a result of increase in both rates and assessed values, higher utility costs of \$1.1 million, higher payroll cost of \$786,000 and repairs and maintenance costs of \$319,000 offset by a decrease in other expenses of \$432,000 due to a decrease in personnel procurement costs, marketing materials and third party services and a decrease in professional fees of \$327,000.

Depreciation and Amortization Expense: Depreciation and amortization expense was \$99.8 million for the year ended December 31, 2008 compared to \$98.5 million for the year ended December 31, 2007. The increase is primarily due to the acquisitions of 870,000 square feet during 2007, as well as depreciation expense on capital and tenant improvements made during 2008 and 2007.

General and Administrative Expense: General and administrative expense was \$8.1 million for the year ended December 31, 2008 compared to \$7.9 million for the year ended December 31, 2007. The increase of \$182,000, or 2.3%, was primarily a result of higher stock compensation expense related to the long-term incentive plan for the senior management.

Interest and Other Income: Interest and other income reflect earnings on cash balances in addition to miscellaneous income items. Interest income was \$1.4 million for the year ended December 31, 2008 compared to \$4.9 million for the year ended December 31, 2007. The decrease is attributable to lower cash balances and lower effective interest rates. Average cash balances and effective interest rates for the year ended December 31, 2008 were \$49.6 million and 2.7%, respectively, compared to \$98.4 million and 5.0%, respectively, for the same period in 2007.

Interest Expense: Interest expense was \$4.0 million for the year ended December 31, 2008 compared to \$4.1 million for the year ended December 31, 2007. The decrease is primarily attributable to the repayment of a mortgage note of \$5.0 million during the first quarter of 2007.

Net Income Allocable to Noncontrolling Interests: Net income allocable to noncontrolling interests reflects the net income allocable to equity interests in the Operating Partnership that are not owned by the Company. Net income allocable to noncontrolling interests was \$15.3 million (\$7.0 million allocated to preferred unit holders and \$8.3 million allocated to common unit holders) for the year ended December 31, 2008 compared to \$13.0 million (\$6.9 million allocated to preferred unit holders and \$6.2 million allocated to common unit holders) for the year ended December 31, 2007. The increase was primarily due to an increase in net operating income combined with the net gain on the repurchase of preferred stock offset by a decrease in interest and other income.

Comparison of 2007 to 2006

Results of Operations: Net income for the year ended December 31, 2007 was \$81.7 million compared to \$81.4 million for the year ended December 31, 2006. Net income allocable to common shareholders for the year ended December 31, 2007 was \$17.5 million compared to \$16.5 million for the year ended December 31, 2006. Net income per common share on a diluted basis was \$0.81 for the year ended December 31, 2007 compared to \$0.77 for the year ended December 31, 2006 (based on weighted average diluted common shares outstanding of 21,573,000 and 21,584,000, respectively). The increase in net income allocable to common shareholders was due to an increase in income from continuing operations of \$2.5 million combined with a decrease in non-cash distributions reported in 2006 associated with preferred equity redemptions of \$4.7 million partially offset by a higher level of preferred equity cash distributions of \$3.2 million and a decrease in gain on disposition of real estate of \$2.3 million.

The following table presents the operating results of the properties for the years ended December 31, 2007 and 2006 in addition to other income and expense items affecting income from continuing operations. The Company breaks out Same Park operations to provide information regarding trends for properties the Company has held for the periods being compared (*in thousands, except per square foot data*):

	For the Years Ended December			Change
	2007	31,	2006	
Rental income:				
Same Park (17.5 million rentable square feet) ⁽¹⁾	\$ 238,783		\$ 230,965	3.4%
Non-Same Park (2.1 million rentable square feet) ⁽²⁾	31,992		11,249	184.4%
Total rental income	270,775		242,214	11.8%
Cost of operations:				
Same Park	72,995		70,707	3.2%
Non-Same Park	11,365		3,964	186.7%
Total cost of operations	84,360		74,671	13.0%
Net operating income ⁽³⁾ :				
Same Park	165,788		160,258	3.5%
Non-Same Park	20,627		7,285	183.1%
Total net operating income	186,415		167,543	11.3%
Other income and expenses:				
Facility management fees	724		625	15.8%
Interest and other income	5,104		6,874	(25.7%)
Interest expense	(4,130)		(2,575)	60.4%
Depreciation and amortization	(98,521)		(86,216)	14.3%
General and administrative	(7,917)		(7,046)	12.4%
Income from continuing operations	\$ 81,675		\$ 79,205	3.1%
Same Park gross margin ⁽⁴⁾	69.4%		69.4%	
Same Park weighted average for the period:				
Occupancy	93.8%		93.4%	0.4%
Realized rent per square foot ⁽⁵⁾	\$ 14.55		\$ 14.14	2.9%

(1) See below for a definition of Same Park.

(2) See below for a definition of Non-Same Park.

(3) Net operating income (NOI) is an important measurement in the commercial

real estate industry for determining the value of the real estate generating the NOI. See Concentration of Portfolio by Region above for more information on NOI. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with GAAP.

- (4) Same Park gross margin is computed by dividing Same Park NOI by Same Park rental income.
- (5) Same Park realized rent per square foot represents the Same Park rental income earned per occupied square foot.

Supplemental Property Data and Trends: In order to evaluate the performance of the Company's overall portfolio over two given years, management analyzes the operating performance of a consistent group of properties owned and operated throughout both those years (herein referred to as Same Park). Operating properties that the Company acquired subsequent to January 1, 2006 are referred to as Non-Same Park. For 2007 and 2006, the Same Park facilities constitute 17.5 million rentable square feet, which includes all assets in continuing operations that the Company owned and operated from January 1, 2006 through December 31, 2007, representing approximately 89.4% of the total square footage of the Company's portfolio for 2007.

Rental income, cost of operations and rental income less cost of operations, excluding depreciation and amortization, or net operating income prior to depreciation and amortization (defined as NOI for purposes of the

following table) from continuing operations are summarized for the years ended December 31, 2007 and 2006 by major geographic region below. See Concentration of Portfolio by Region above for more information on NOI, including why the Company presents NOI and how the Company uses NOI. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP.

The following table summarizes the Same Park operating results by major geographic region for the years ended December 31, 2007 and 2006. In addition, the table reflects the comparative impact on the overall rental income, cost of operations and NOI from properties that have been acquired since January 1, 2006, and the impact of such is included in Non-Same Park facilities in the table below (*in thousands*):

Region	Rental Income			Cost of Operations			NOI		
	December 31, 2007	December 31, 2006	Increase (Decrease)	December 31, 2007	December 31, 2006	Increase (Decrease)	December 31, 2007	December 31, 2006	Increase (Decrease)
Southern California	\$ 63,570	\$ 60,803	4.6%	\$ 17,115	\$ 17,362	(1.4%)	\$ 46,455	\$ 43,441	6.9%
Northern California	19,589	18,854	3.9%	5,380	5,006	7.5%	14,209	13,848	2.6%
Southern Texas	11,849	10,472	13.1%	5,156	4,668	10.5%	6,693	5,804	15.3%
Northern Texas	15,162	14,736	2.9%	5,765	5,811	(0.8%)	9,397	8,925	5.3%
South Florida	25,899	24,316	6.5%	7,869	8,041	(2.1%)	18,030	16,275	10.8%
Virginia	51,219	50,055	2.3%	14,779	14,056	5.1%	36,440	35,999	1.2%
Maryland	25,909	25,868	0.2%	7,251	6,616	9.6%	18,658	19,252	(3.1%)
Oregon	18,281	18,596	(1.7%)	6,663	6,288	6.0%	11,618	12,308	(5.6%)
Arizona	6,976	7,001	(0.4%)	2,907	2,746	5.9%	4,069	4,255	(4.4%)
Washington	329	264	24.6%	110	113	(2.7%)	219	151	45.0%
Total Same Park	238,783	230,965	3.4%	72,995	70,707	3.2%	165,788	160,258	3.5%
Non-Same Park	31,992	11,249	184.4%	11,365	3,964	186.7%	20,627	7,285	183.1%
Total before depreciation and amortization	270,775	242,214	11.8%	84,360	74,671	13.0%	186,415	167,543	11.3%
Depreciation and amortization				98,521	86,216	14.3%	(98,521)	(86,216)	14.3%
Total based on GAAP	\$ 270,775	\$ 242,214	11.8%	\$ 182,881	\$ 160,887	13.7%	\$ 87,894	\$ 81,327	8.1%

Revenues: Revenues increased \$28.6 million for the year ended December 31, 2007, over the same period in 2006 driven primarily by an increase of \$20.7 million from the Company's Non-Same Park facilities which was due to higher rental rates. The Company's Same Park portfolio accounted for \$7.8 million of the increase which was due to a slight improvement in occupancy and higher rental rates.

Facility Management Operations: The Company's facility management operations account for a small portion of the Company's net income. During the year ended December 31, 2007, \$724,000 of revenue was recognized from facility management fees compared to \$625,000 for the year ended December 31, 2006.

Cost of Operations: Cost of operations, excluding discontinued operations, was \$84.4 million for the year ended December 31, 2007 compared to \$74.7 million for the year ended December 31, 2006. The increase in property taxes, repairs and maintenance costs and payroll costs accounted for 57.9% of the increase in cost of operations. The increase was primarily due to 2.1 million square feet of assets acquired in 2007 and 2006. In addition, utility costs accounted for 26.6% of the increase to cost of operations as a result of an increase in usage and rates.

Depreciation and Amortization Expense: Depreciation and amortization expense, excluding discontinued operations, was \$98.5 million for the year ended December 31, 2007 compared to \$86.2 million for the year ended December 31, 2006. The increase is primarily due to the acquisitions of 2.1 million square feet during 2006 and 2007, as well as depreciation expense on capital and tenant improvements made during 2007 and 2006.

General and Administrative Expense: General and administrative expense was \$7.9 million for the year ended December 31, 2007 compared to \$7.0 million for the year ended December 31, 2006. The increase of \$871,000, or 12.4%, was the result of higher compensation expense due to higher levels of salary and higher stock compensation expense related to the long-term incentive plan for senior management.

Interest and Other Income: Interest and other income reflect earnings on cash balances in addition to miscellaneous income items. Interest income was \$4.9 million for the year ended December 31, 2007 compared to \$6.8 million for the year ended December 31, 2006. The decrease is attributable to lower cash balances. Average cash balances for the year ended December 31, 2007 were \$97.4 million compared to \$137.6 million for the same period in 2006.

Interest Expense: Interest expense was \$4.1 million for the year ended December 31, 2007 compared to \$2.6 million for the year ended December 31, 2006. The increase is primarily attributable to \$40.6 million in mortgages assumed in connection with the purchase of Meadows Corporate Park in Silver Spring, Maryland and Wellington Commerce Park and Boca Commerce Park in Palm Beach County, Florida during 2006.

Gain on Disposition of Real Estate: Included in income from discontinued operations is gain on disposition of real estate for the year ended December 31, 2006 of \$2.3 million. During the year ended December 31, 2006, the Company disposed of five properties, four in Miami and one in Oregon. The four properties in Miami generated an aggregate gain of \$865,000 with the remaining one property in Oregon providing a net gain of \$1.5 million.

Net Income Allocable to Noncontrolling Interests: Net income allocable to noncontrolling interests reflects the net income allocable to equity interests in the Operating Partnership that are not owned by the Company. Net income allocable to noncontrolling interests was \$13.0 million (\$6.9 million allocated to preferred unit holders and \$6.2 million allocated to common unit holders) for the year ended December 31, 2007 compared to \$16.8 million (\$11.2 million allocated to preferred unit holders and \$5.7 million allocated to common unit holders) for the year ended December 31, 2006. The reduction was primarily due to the reduction of higher rate preferred units and a decrease in non-cash distributions to the preferred unit holders for redemption of preferred partnership units.

Liquidity and Capital Resources

Cash and cash equivalents increased \$20.0 million from \$35.0 million at December 31, 2007 to \$55.0 million at December 31, 2008. The increase was primarily due to retained cash from operations partially offset by the \$27.1 million of cash paid for repurchases of preferred and common stock in 2008.

Net cash provided by operating activities for the years ended December 31, 2008 and 2007 was \$189.3 million and \$184.1 million, respectively. Management believes that the Company's internally generated net cash provided by operating activities will be sufficient to enable it to meet its operating expenses, capital improvements, debt service requirements and distributions to shareholders in addition to providing additional cash for future growth and debt repayment.

Net cash used in investing activities was \$35.2 million and \$180.2 million for the years ended December 31, 2008 and 2007, respectively. The change of \$145.0 million was primarily due to \$138.9 million of property acquisitions in Washington, California and Virginia made during 2007 million compared to no property acquisitions during 2008.

Net cash used in financing activities was \$134.2 million and \$35.9 million for the years ended December 31, 2008 and 2007, respectively. The change of \$98.3 million was primarily due to a decrease of \$151.2 million in net proceeds from the issuance of preferred equity combined with a decrease of cash paid for preferred and common stock repurchases and redemptions of \$51.4 million.

The Company's preferred equity outstanding increased to 38.1% of its market capitalization during the year ended December 31, 2008. The Company's capital structure is characterized by a low level of leverage. As of December 31, 2008, the Company had six fixed-rate mortgages totaling \$59.3 million, which represented 2.8% of its total market capitalization. The Company calculates market capitalization by adding (1) the liquidation preference of the Company's outstanding preferred equity, (2) principal value of the Company's outstanding mortgages and (3) the total number of common shares and common units outstanding at December 31, 2008 multiplied by the closing price of the stock on that date. The weighted average interest rate for the mortgages is approximately 5.9% per annum. The Company had approximately 7.7% of its properties, in terms of net book value, encumbered at December 31, 2008.

The Company focuses on retaining cash for reinvestment as we believe that this provides the greatest level of financial flexibility. During the years ended December 31, 2008 and 2007, the Company generated approximately \$48.8 million and \$41.9 million, respectively, of retained cash. The Company defines retained cash as funds from operations less recurring capital expenditures, distributions and other non-cash adjustments. The amount of cash we retain depends in part on the amount of distributions we make to our shareholders, and, because the U.S. federal income tax rules applicable to REITs require us to distribute 90% of our taxable income to our shareholders, the amount of our distributions depends in part on the amount of our taxable income. Taxable income is a function of many factors which include, among others, the Company's operating income, acquisition activity and preferred distributions. The Company takes these requirements into account when formulating strategies to increase the amount of its retained cash. As the Company continues to grow as a function of improving operating fundamentals and acquisitions, taxable income has and will likely continue to increase, requiring increased distributions to the

Company's common shareholders. During the second quarter of 2007, the Company increased its quarterly dividend from \$0.29 per common share to \$0.44 per common share. With retained cash of \$48.8 million for the year ended December 31, 2008, the Company believes it has sufficient cash flow to cover the increased dividend. Going forward, the Company will continue to monitor its taxable income and the corresponding dividend requirements.

During 2007, the Company issued an aggregate of \$155.8 million of preferred equity with a weighted average rate of 6.688%. Proceeds from the various offerings were used to redeem higher rate preferred equity aggregating \$50.0 million with a rate of 8.750%. In addition, proceeds were used to provide permanent financing for the Company's acquisitions made in 2007.

During 2006, the Company issued an aggregate of \$95.0 million of preferred equity with a rate of 7.375%. Proceeds from the various offerings were used to redeem higher rate preferred equity of \$118.9 million with a weighted average rate of 9.389%.

On July 30, 2008, the Company extended the term of its line of credit (the Credit Facility) with Wells Fargo Bank to August 1, 2010. The Credit Facility has a borrowing limit of \$100.0 million. 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 0.70% to LIBOR plus 1.50% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 0.85%). 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 \$300,000, which is being amortized over the life of the Credit Facility. The Company had no balance outstanding as December 31, 2008 and 2007.

The Company's funding strategy has been to use permanent capital, including common and preferred stock, and internally generated retained cash flows. In addition, the Company may sell properties that no longer meet its investment criteria. The Company may finance acquisitions on a temporary basis with borrowings from its Credit Facility. The Company targets a minimum ratio of funds from operations (FFO) to combined fixed charges and preferred distributions of 2.6 to 1.0. Fixed charges include interest expense and capitalized interest. Preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unit holders. For the year ended December 31, 2008, the FFO to fixed charges and preferred distributions coverage ratio was 3.1 to 1.0, excluding the \$4.2 million net gain on the repurchase of preferred stock.

Non-GAAP Supplemental Disclosure Measure: Funds from Operations: Management believes that FFO is a useful supplemental measure of the Company's operating performance. The Company computes FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income, computed in accordance with GAAP, before depreciation, amortization, gains or losses on asset dispositions and nonrecurring items. Management believes that FFO provides a useful measure of the Company's operating performance and when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income.

FFO should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of operating performance or liquidity as it does not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs and could materially affect the Company's results of operations.

Management believes FFO provides useful information to the investment community about the Company's operating performance when compared to the performance of other real estate companies as FFO is generally recognized as the industry standard for reporting operations of REITs. Other REITs may use different methods for calculating FFO and, accordingly, our FFO may not be comparable to other real estate companies.

FFO for the Company is computed as follows (*in thousands*):

	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
Net income allocable to common shareholders	\$ 23,179	\$ 17,537	\$ 16,513	\$ 32,242	\$ 29,104
Gain on disposition of real estate			(2,328)	(18,109)	(15,462)
Depreciation and amortization	99,848	98,521	86,243	77,420	73,793
Net income allocable to noncontrolling interests common units	8,296	6,155	5,673	10,869	9,760
Consolidated FFO allocable to common shareholders and noncontrolling interests common units	131,323	122,213	106,101	102,422	97,195
FFO allocated to noncontrolling interests common units	(34,407)	(31,531)	(26,950)	(25,810)	(24,396)
FFO allocated to common shareholders	\$ 96,916	\$ 90,682	\$ 79,151	\$ 76,612	\$ 72,799

FFO allocated to common shareholders and noncontrolling interests common units for the year ended December 31, 2008 increased \$9.1 million over the year ended December 31, 2007 primarily due to the net gain of \$4.2 million on the repurchase of preferred stock combined with an increase in net operating income partially offset by the decrease in interest income.

Capital Expenditures: During the years ended December 31, 2008, 2007 and 2006, the Company incurred \$33.3 million, \$37.4 million and \$34.1 million, respectively, in recurring capital expenditures, or \$1.70, \$1.93 and \$1.89 per weighted average square foot, respectively. The Company defines recurring capital expenditures as those necessary to maintain and operate its commercial real estate at its current economic value. The following table depicts actual capital expenditures (*in thousands*):

	For the Years Ended December 31,		
	2008	2007	2006
Recurring capital expenditures	\$ 33,262	\$ 37,362	\$ 34,096
Property renovations and other capital expenditures	1,930	5,239	5,131
Total capital expenditures	\$ 35,192	\$ 42,601	\$ 39,227

Stock Repurchase: The Company's Board of Directors previously authorized the repurchase, from time to time, of up to 6.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the year ended December 31, 2008, 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. As of December 31, 2008, the Company can repurchase an additional 2.2 million shares under existing board authorizations.

Preferred Stock Repurchase: On December 1, 2008, the Company paid \$5.5 million to repurchase 400,000 depositary shares, each representing 1/1,000 of a share of the 6.700% Cumulative Preferred Stock, Series P, for an average cost of \$13.70 per depositary share. In accordance with Emerging Issues Task Force (EITF) Topic D-42, the purchase price discount, equaling the liquidation value of \$25.00 per depositary share over the fair value, is reflected in the income statement, net of the original issue discount, and added to net income allocable to common shareholders. After the purchase, 5,350,000 depositary shares of Preferred Stock, Series P remained outstanding.

Redemption of Preferred Equity: On December 15, 2006, the Company called 2.0 million depositary shares (\$50.0 million) of its 8.750% Cumulative Preferred Stock, Series F for January, 2007 redemption. The Company reported the excess of the redemption amount over the carrying amount, \$1.7 million, as an additional allocation of net income to preferred shareholders and a corresponding reduction of net income allocable to common shareholders and common unit holders for the year ended December 31, 2006. The Company redeemed the Series F units on January 29, 2007.

Distributions: The Company has elected and intends to qualify as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must meet, among other tests, sources of income, share ownership and certain asset tests. As a REIT, the Company is not taxed on that portion of its taxable income that is distributed to its shareholders provided that at least 90% of its taxable income is distributed to its shareholders prior to the filing of its tax return.

Related Party Transactions: At December 31, 2008, Public Storage (PS) owned 26.5% of the outstanding shares of the Company s common stock and 26.3 % of the outstanding common units of the Operating Partnership (100.0% of the common units not owned by the Company). Assuming conversion of its partnership units, PS would own 45.8% of the outstanding shares of the Company s common stock. Ronald L. Havner, Jr., the Company s chairman, is also the Chief Executive Officer, President and a Director of PS. Harvey Lenkin is a Director of both the Company and PS.

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PS and affiliated entities for certain administrative services. These costs totaled \$390,000 in 2008 and are allocated among PS and its affiliates in accordance with a methodology intended to fairly allocate those costs. In addition, the Company provides property management services for properties owned by PS and its affiliates for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs. These management fee revenues recognized under management contracts with affiliated parties totaled \$728,000 in 2008. In December, 2006, PS also began providing property management services for the mini storage component of two assets owned by the Company for a fee of 6% of the gross revenues of such properties in addition to reimbursement of certain costs. Management fee expense recognized under the management contracts with PS totaled approximately \$45,000 for the year ended December 31, 2008.

Off-Balance Sheet Arrangements: The Company does not have any off-balance sheet arrangements.

Contractual Obligations: The table below summarizes projected payments due under our contractual obligations as of December 31, 2008 (*in thousands*):

<u>Contractual Obligations</u>	Total	Payments Due by Period			
		Less than 1 year	1 3 years	3 5 years	More than 5 years
Mortgage notes payable (principal and interest)	\$ 70,386	\$ 9,469	\$ 26,478	\$ 34,439	\$
Total	\$ 70,386	\$ 9,469	\$ 26,478	\$ 34,439	\$

The Company is scheduled to pay cash dividends of \$57.4 million per year on its preferred equity outstanding as of December 31, 2008. Dividends are paid when and if declared by the Company s Board of Directors and accumulate if not paid. Shares and units of preferred equity are redeemable by the Company in order to preserve its status as a REIT and are also redeemable five years after issuance.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company at December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 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 accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow for 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 Securities Exchange Act of 1934. 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.

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 Securities Exchange Act of 1934. 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, 2008.

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, 2008.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008 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 of 2008 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, 2008, 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, 2008, 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, 2008 and 2007, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 24, 2009, except for Note 2 - Summary of significant accounting policies - Noncontrolling interests, Net income allocation and Net income per common share, and Note 7 - Noncontrolling interests, as to which the date is June 16, 2009, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Los Angeles, California
February 24, 2009

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))

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	25
<u>Consolidated balance sheets as of December 31, 2008 and 2007</u>	26
<u>Consolidated statements of income for the years ended December 31, 2008, 2007 and 2006</u>	27
<u>Consolidated statements of equity for the years ended December 31, 2008, 2007 and 2006</u>	28
<u>Consolidated statements of cash flows for the years ended December 31, 2008, 2007 and 2006</u>	29
<u>Notes to consolidated financial statements</u>	31
Schedule:	
III Real estate and accumulated depreciation	46
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, 2008 and 2007, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2008. 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, 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.

As discussed in Note 2 to the consolidated financial statements, as a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 and FASB Staff Position EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities on January 1, 2009, the Company retrospectively adjusted its consolidated financial statements to reflect the presentation and disclosure requirements of these new accounting standards.

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, 2008, 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 24, 2009 expressed an unqualified opinion thereon.
/s/ Ernst & Young LLP

Los Angeles, California

February 24, 2009, except for Note 2

Summary of significant accounting policies - Noncontrolling interests, Net income allocation and Net income per common share, and Note 7

Noncontrolling interests, as to which the date is June 16, 2009

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

	December 31,	
	2008	2007
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$ 55,015	\$ 35,041
Real estate facilities, at cost:		
Land	494,849	494,849
Buildings and equipment	1,517,484	1,484,049
	2,012,333	1,978,898
Accumulated depreciation	(637,948)	(539,857)
	1,374,385	1,439,041
Land held for development	7,869	7,869
	1,382,254	1,446,910
Rent receivable	2,055	2,240
Deferred rent receivable	21,633	21,927
Other assets	8,366	10,465
Total assets	\$ 1,469,323	\$ 1,516,583
 LIABILITIES AND EQUITY		
Accrued and other liabilities	\$ 46,428	\$ 51,058
Mortgage notes payable	59,308	60,725
Total liabilities	105,736	111,783
Commitments and contingencies		
Equity:		
PS Business Parks, Inc. s shareholders equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 28,250 and 28,650 shares issued and outstanding at December 31, 2008 and 2007, respectively	706,250	716,250
Common stock, \$0.01 par value, 100,000,000 shares authorized, 20,459,916 and 20,777,219 shares issued and outstanding at December 31, 2008 and 2007, respectively	204	207
Paid-in capital	363,587	371,267

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Cumulative net income	622,113	552,069
Cumulative distributions	(571,340)	(484,213)
Total PS Business Parks, Inc. s shareholders equity	1,120,814	1,155,580
Noncontrolling interests:		
Preferred units	94,750	94,750
Common units	148,023	154,470
Total noncontrolling interests	242,773	249,220
Total equity	1,363,587	1,404,800
Total liabilities and equity	\$ 1,469,323	\$ 1,516,583

See accompanying notes.

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PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2008	2007	2006
	(In thousands, except per share data)		
Revenues:			
Rental income	\$ 283,503	\$ 270,775	\$ 242,214
Facility management fees	728	724	625
Total operating revenues	284,231	271,499	242,839
Expenses:			
Cost of operations	88,442	84,360	74,671
Depreciation and amortization	99,848	98,521	86,216
General and administrative	8,099	7,917	7,046
Total operating expenses	196,389	190,798	167,933
Other income and expenses:			
Interest and other income	1,457	5,104	6,874
Interest expense	(3,952)	(4,130)	(2,575)
Total other income and expenses	(2,495)	974	4,299
Income from continuing operations	85,347	81,675	79,205
Discontinued operations:			
Loss from discontinued operations			(125)
Gain on disposition of real estate			2,328
Income from discontinued operations			2,203
Net income	\$ 85,347	\$ 81,675	\$ 81,408
Net income allocation:			
Common shareholders	\$ 23,179	\$ 17,537	\$ 16,513
Preferred shareholders	46,630	50,937	47,933
Noncontrolling interests common units	8,296	6,155	5,673
Noncontrolling interests preferred units	7,007	6,854	11,155
Restricted stock unit holders	235	192	134
	\$ 85,347	\$ 81,675	\$ 81,408
Net income per common share basic:			
Continuing operations	\$ 1.13	\$ 0.82	\$ 0.70
Discontinued operations	\$	\$	\$ 0.08
Net income	\$ 1.13	\$ 0.82	\$ 0.77

Net income per common share diluted:			
Continuing operations	\$ 1.12	\$ 0.81	\$ 0.69
Discontinued operations	\$	\$	\$ 0.08
Net income	\$ 1.12	\$ 0.81	\$ 0.77

Weighted average common shares outstanding:			
Basic	20,443	21,313	21,335
Diluted	20,618	21,573	21,584

See accompanying notes.

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PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF EQUITY

	Preferred Stock		Common Stock		Paid-in	Cumulative	Cumulative	Total PS	Noncontrolling	
	Shares	Amount	Shares	Amount	Capital	Net Income	Distributions	Shareholders	Interests	T
								Equity		Equ
at er 31,	23,734	\$ 593,350	21,560,593	\$ 215	\$ 407,380	\$ 418,823	\$ (326,310)	\$ 1,093,458	\$ 305,201	\$ 1,
of										
t of	3,800	95,000			(2,798)			92,202		
costs										
ion of	(2,634)	(65,850)			1,658		(1,658)	(65,850)		
stock										
stock										
.										
on	(2,000)	(50,000)			1,722		(1,722)	(50,000)		
ion of									(53,000)	
units										
use of										
stock			(309,100)	(3)	(16,114)			(16,117)		
of										
ions			37,900	1	1,366			1,367		
ation			21,612		2,287			2,287		
me						64,580		64,580	16,828	
ions:										
stock							(44,553)	(44,553)		
stock							(24,718)	(24,718)		
rolling									(18,263)	
ent to										
olling										
in										
g										
s										
ip					2,547			2,547	(2,547)	
at										
er 31,	22,900	572,500	21,311,005	213	398,048	483,403	(398,961)	1,055,203	248,219	1,
of	5,750	143,750			(4,183)			139,567		
t of										

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costs of units, variance									11,665	
use of stock of options	(601,042)	(6)	(31,847)				(31,853)			
ation	43,384		1,468				1,468			
on	23,872		2,811				2,811			
me			(88)				(88)			
ions:					68,666		68,666		13,009	
stock						(50,937)	(50,937)			
stock						(34,315)	(34,315)			
rolling									(18,615)	
ent to rolling in g										
ip				5,058			5,058		(5,058)	
at										
er 31,	28,650	716,250	20,777,219	207	371,267	552,069	(484,213)	1,155,580	249,220	1,
use of										
t of costs	(400)	(10,000)			4,810		(291)	(5,481)		
use of stock of options			(370,042)	(3)	(18,321)			(18,324)		
ation			30,234		792			792		
me			22,505		3,152			3,152		
ions:						70,044		70,044	15,303	
stock							(50,858)	(50,858)		
stock							(35,978)	(35,978)		
rolling									(19,863)	
ent to rolling in g										
ip					1,887			1,887	(1,887)	

at
er 31,

28,250 \$ 706,250 20,459,916 \$ 204 \$ 363,587 \$ 622,113 \$ (571,340) \$ 1,120,814 \$ 242,773 \$ 1,

See accompanying notes.

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PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 85,347	\$ 81,675	\$ 81,408
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	99,848	98,521	86,243
In-place lease adjustment	(194)	(102)	232
Lease incentives net of tenant improvement reimbursements	(379)	(33)	440
Amortization of mortgage premium	(260)	(247)	(76)
Gain on disposition of properties			(2,328)
Stock compensation expense	4,061	3,724	2,845
Decrease (increase) in receivables and other assets	1,759	(1,015)	(3,741)
Increase (decrease) in accrued and other liabilities	(845)	1,571	1,111
 Total adjustments	 103,990	 102,419	 84,726
 Net cash provided by operating activities	 189,337	 184,094	 166,134
Cash flows from investing activities:			
Capital improvements to real estate facilities	(35,192)	(42,601)	(39,227)
Acquisition of real estate facilities		(138,936)	(138,973)
Insurance proceeds from casualty loss		1,349	500
Proceeds from disposition of real estate			7,714
 Net cash used in investing activities	 (35,192)	 (180,188)	 (169,986)
Cash flows from financing activities:			
Principal payments on mortgage notes payable	(1,157)	(1,126)	(762)
Repayment of mortgage note payable		(4,950)	
Net proceeds from the issuance of preferred stock		139,567	92,448
Net proceeds from the issuance of preferred units		11,665	
Exercise of stock options	792	1,468	1,367
Shelf registration costs		(88)	
Repurchase of common stock	(21,626)	(28,551)	(16,117)
Repurchase of preferred stock	(5,481)		
Redemption of preferred units			(53,000)
Redemption of preferred stock		(50,000)	(65,850)
Distributions paid to common shareholders	(35,978)	(34,315)	(24,718)
Distributions paid to preferred shareholders	(50,858)	(50,937)	(44,799)
Distributions paid to noncontrolling interests common units	(12,856)	(11,761)	(8,474)
Distributions paid to noncontrolling interests preferred units	(7,007)	(6,854)	(9,789)
 Net cash used in financing activities	 (134,171)	 (35,882)	 (129,694)

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Net increase (decrease) in cash and cash equivalents	19,974	(31,976)	(133,546)
Cash and cash equivalents at the beginning of the period	35,041	67,017	200,563
Cash and cash equivalents at the end of the period	\$ 55,015	\$ 35,041	\$ 67,017
Supplemental disclosures:			
Interest paid	\$ 4,050	\$ 4,145	\$ 2,575

See accompanying notes.

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PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Supplemental schedule of non-cash investing and financing activities:			
Adjustment to noncontrolling interests in underlying operating partnership:			
Noncontrolling interests common units	\$ (1,887)	\$ (5,393)	\$ (1,181)
Paid-in capital	\$ 1,887	\$ 5,393	\$ 1,181
Gain on repurchase of preferred stock:			
Preferred stock	\$ (4,519)	\$	\$
Paid-in capital	\$ 4,519	\$	\$
Effect of Emerging Issues Task Force (EITF) Topic D-42			
Cumulative distributions	\$ (291)	\$	\$ (3,380)
Noncontrolling interest common units	\$	\$	\$ (1,366)
Paid-in capital	\$ 291	\$	\$ 4,746
Mortgage note payable assumed in property acquisition:			
Real estate facilities	\$	\$	\$ (41,993)
Mortgage notes payable	\$	\$	\$ 41,993
Accrued stock repurchase:			
Paid-in capital	\$	\$ (3,302)	\$
Accrued and other liabilities	\$	\$ 3,302	\$
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, 2008

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, 2008, PSB owned 73.7% of the common partnership units of PS Business Parks, L.P. (the Operating Partnership). 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, 2008, 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.

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

2. Summary of significant accounting policies

Basis of presentation

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

Noncontrolling Interests

The Company applies Statement of Financial Accounting Standards (SFAS) No. 160 Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51, for arrangements with noncontrolling interests. SFAS No. 160 requires that minority interests be recharacterized as noncontrolling interests and be reported as a component of equity separate from the parent's equity. Purchases or sales of equity interests that do not result in a change in control should be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest is included in consolidated net income on the face of the income statement and, upon a gain or loss of control, the interest purchased or sold, as well as any interest retained, should be recorded at fair value with any gain or loss recognized in earnings. The Company adopted SFAS No. 160 beginning January 1, 2009, which applies prospectively, except for presentation and disclosure requirements, which apply retrospectively. The adoption of SFAS No. 160 on January 1, 2009 did not have a material impact on the Company's consolidated financial position or earnings per share.

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 these 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 contractual rent payments to the Company. A provision for doubtful accounts is recorded during each period. The allowance for doubtful accounts, which represents the cumulative allowances less write-offs of uncollectible rent, is netted against tenant and other receivables on the consolidated balance sheets. Tenant receivables are net of an allowance for uncollectible accounts totaling \$300,000 at December 31, 2008 and 2007.

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.

Properties held for disposition

The Company accounts for properties held for disposition in accordance with 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 sheets) are amortized, net, to rental income over the remaining non-cancelable terms of the respective leases. The Company recorded net amortization of \$194,000, \$102,000 and \$232,000 of intangible assets and liabilities resulting from the above-market and below-market lease values during the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008, the value of in-place leases resulted in a net intangible asset of \$181,000, net of \$1.0 million of accumulated amortization, and a net intangible liability of \$585,000 net of \$772,000 of accumulated amortization. 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.

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, 2008, 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 years ended December 31, 2008 and 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.

Stock-based compensation

Stock-based compensation is accounted for in accordance with SFAS No. 123(R) Share-Based Payment, which 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. 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 or 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. Property management fees are recognized in the period earned.

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 and other compensation, office expense, professional fees, state income taxes 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 2008, 2007 and 2006 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 Financial Accounting Standards Board (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 Company adopted FIN 48 as of January 1, 2007 and did not record any adjustment as a result of such adoption.

Accounting for preferred equity issuance costs

In accordance with 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 allocation

Net income was allocated as follows for the years ended December 31, (*in thousands*):

	2008	2007	2006
Common shareholders:			
Income from continuing operations	\$ 23,179	\$ 17,537	\$ 14,870
Discontinued operations			1,643
Total net income allocable to common shareholders	23,179	17,537	16,513
Preferred shareholders:			
Distributions to preferred shareholders	50,858	50,937	44,553
Gain on repurchase of preferred stock, net of issuance costs	(4,228)		
Redemptions of preferred stock			3,380
Total net income allocable to preferred shareholders	46,630	50,937	47,933
Noncontrolling interests common units:			
Income from continuing operations	8,296	6,155	5,113
Discontinued operations			560
Total net income allocable to noncontrolling interests common units	8,296	6,155	5,673
Noncontrolling interests preferred units:			
Distributions to preferred units holders	7,007	6,854	9,789
Redemption of preferred operating partnership units			1,366
Total net income allocable to noncontrolling interests preferred units	7,007	6,854	11,155
Total net income allocable to noncontrolling interests	15,303	13,009	16,828
Restricted stock unit holders	235	192	134
	\$ 85,347	\$ 81,675	\$ 81,408

Net income per common share

Per share amounts are computed using the number of 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. In accordance with FASB Staff Position EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1), the Company's restricted stock units are participating securities and included in the computation of basic and diluted weighted average common shares outstanding. The Company adopted FSP EITF 03-6-1 effective January 1, 2009 retroactive to all periods presented which resulted in the allocation of net income to the restricted stock unit holders which are paid non-forfeitable dividends in excess of the expense recorded resulting in a reduction in net income allocable to common shareholders

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and unit holders. Earnings per share has been calculated as follows for the years ended December 31, (*in thousands, except per share amounts*):

	2008	2007	2006
Net income allocable to common shareholders	\$ 23,179	\$ 17,537	\$ 16,513
Weighted average common shares outstanding:			
Basic weighted average common shares outstanding	20,443	21,313	21,335
Net effect of dilutive stock compensation based on treasury stock method using average market price	175	260	249
Diluted weighted average common shares outstanding	20,618	21,573	21,584
Net income per common share Basic	\$ 1.13	\$ 0.82	\$ 0.77
Net income per common share Diluted	\$ 1.12	\$ 0.81	\$ 0.77

Options to purchase approximately 76,000, 32,000 and 20,000 shares for the years ended December 31 2008, 2007 and 2006, 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.

3. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2008, 2007 and 2006 is as follows (*in thousands*):

	Land	Buildings and Equipment	Accumulated Depreciation	Total
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
Capital improvements, net		35,192		35,192
Disposals		(1,757)	1,757	
Depreciation expense			(99,848)	(99,848)
Balances at December 31, 2008	\$ 494,849	\$ 1,517,484	\$ (637,948)	\$ 1,374,385

The unaudited basis of real estate facilities for federal income tax purposes was approximately \$1.3 billion at December 31, 2008. The Company had approximately 7.7% of its properties, in terms of net book value, encumbered by mortgage debt at December 31, 2008.

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%.

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

	2007	2006
Land	\$ 53,930	\$ 56,469
Buildings	88,006	124,774
In-place leases	(1,357)	433
Total purchase price	140,579	181,676
Mortgages assumed		(41,993)
Net operating assets and liabilities acquired	(1,643)	(710)
Total cash paid	\$ 138,936	\$ 138,973

The Company did not acquire any assets or assume any liabilities during the year ended December 31, 2008.

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 lease 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.

In determining the fair value of the tangible assets of the acquired properties, management 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 lease commissions are based on current market replacement costs and other market 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.

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, 2008 under these leases are as follows (in thousands):

2009	\$ 204,338
2010	158,877
2011	113,154
2012	76,845
2013	45,725
Thereafter	72,336
Total	\$ 671,275

In addition to minimum rental payments, certain tenants reimburse the Company for their pro rata share of specified operating expenses. Such reimbursements amounted to \$55.1 million, \$45.8 million and \$32.9 million, for the years ended December 31, 2008, 2007 and 2006, respectively. These amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for approximately 4.7% of total leased square footage are subject to termination options which include leases for approximately 1.8% of total leased square footage having termination options exercisable through December 31, 2009 (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

On July 30, 2008, the Company extended the term of its line of credit (the Credit Facility) with Wells Fargo Bank to August 1, 2010. The Credit Facility has a borrowing limit of \$100.0 million. 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 0.70% to LIBOR plus 1.50% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 0.85%). 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 \$300,000, which is being amortized over the life of the Credit Facility. The Company had no balance outstanding on its Credit Facility at December 31, 2008 and 2007.

The Credit Facility requires the Company to meet certain covenants including (i) maintain a balance sheet leverage ratio (as defined therein) of less than 0.45 to 1.00, (ii) maintain a fixed charge coverage ratio (as defined therein) of not less than 1.75 to 1.00, (iii) maintain a minimum tangible net worth (as defined) and (iv) limit distributions to 95% of funds from operations (as defined therein) for any four consecutive quarters. In addition, the Company is limited in its ability to incur additional borrowings (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, 2008) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 2008.

6. Mortgage notes payable

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

	December 31, 2008	December 31, 2007
7.29% mortgage note, secured by one commercial property with a net book value of \$6.2 million, principal and interest payable monthly, repaid February, 2009	\$ 5,144	\$ 5,323
5.73% mortgage note, secured by one commercial property with a net book value of \$29.7 million, principal and interest payable monthly, due March, 2013	14,247	14,510
6.15% mortgage note, secured by one commercial property with a net book value of \$29.8 million, principal and interest payable monthly, due November, 2031 ⁽¹⁾	16,912	17,348
5.52% mortgage note, secured by one commercial property with a net book value of \$16.1 million, principal and interest payable monthly, due May, 2013	10,053	10,274
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	10,065	10,281
5.61% mortgage note, secured by one commercial property with a net book value of \$5.8 million, principal and interest payable monthly, due January, 2011 ⁽²⁾	2,887	2,989
Total	\$ 59,308	\$ 60,725

- (1) The mortgage note has a stated principal balance of \$16.3 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 \$635,000 and \$834,000 as of December 31, 2008 and 2007, respectively. This mortgage is repayable without penalty beginning November, 2011.

(2) The mortgage note has a stated 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 \$136,000 and \$198,000 as of December 31, 2008 and 2007, respectively.

At December 31, 2008, mortgage notes payable have a weighted average interest rate of 5.94% and a weighted average maturity of 3.4 years with principal payments as follows (*in thousands*):

2009	\$ 6,422
2010	1,376
2011	19,426
2012	856
2013	31,228
Total	\$ 59,308

7. Noncontrolling interests

As described in Note 2, in accordance with SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51, the Company reports noncontrolling interests within equity in the consolidated financial statements, but separate from the Company's shareholders' equity. In addition, the adoption of SFAS No. 160 resulted in net income allocable to noncontrolling interests no longer being treated as a reduction to net income but shown as a reduction from net income in calculating net income allocable to common shareholders.

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 noncontrolling interests' common units in the consolidated financial statements. Net income allocable to noncontrolling interests' common units consists of the common units' 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, 2008, there were 7,305,355 common units owned by PS, which are accounted for as noncontrolling interests. On a fully converted basis, assuming all 7,305,355 noncontrolling interests common units were converted into shares of common stock of PSB at December 31, 2008, the noncontrolling interest common units would convert into approximately 26.3% of the common shares outstanding. Combined with PS's common stock ownership, on a fully converted basis, PS has a combined ownership of approximately 45.8% 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 noncontrolling interest based upon the ownership interest, and an adjustment is made to the noncontrolling interest, with a corresponding adjustment to paid-in capital, to reflect the noncontrolling interests equity interest in the Company.

Preferred partnership units

Through the Operating Partnership, the Company has the following preferred units outstanding as of December 31, 2008 and 2007 (*in thousands*):

Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	December 31, 2008		December 31, 2007	
				Units Outstanding	Amount	Units 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	480	12,000
Total				3,790	\$ 94,750	3,790	\$ 94,750

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.

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, 2008 and 2007, the Company had \$2.7 million 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 its 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 \$390,000, \$303,000 and \$320,000 for the years ended December 31, 2008, 2007 and 2006, 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 \$728,000, \$724,000 and \$625,000 for the years ended December 31, 2008, 2007 and 2006, 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
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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 expenses under the contract were approximately \$45,000 and \$47,000 for the years ended December 31, 2008 and 2007, respectively.

The Company had amounts due from PS of \$763,000 and \$717,000 for these contracts, as well as for certain operating expenses, for the years ended December 31, 2008 and 2007, respectively.

9. Shareholders equity

Preferred stock

As of December 31, 2008 and December 31, 2007, the Company had the following series of preferred stock outstanding (*in thousands, except share data*):

Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	December 31, 2008		December 31, 2007	
				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%	5,350	133,750	5,750	143,750
Total				28,250	\$ 706,250	28,650	\$ 716,250

On December 1, 2008, the Company paid \$5.5 million to repurchase 400,000 depositary shares, each representing 1/1,000 of a share of the 6.700% Cumulative Preferred Stock, Series P, for a cost of \$13.70 per depositary share. In accordance with EITF Topic D-42, the purchase price discount, equaling the liquidation value of \$25.00 per depositary share over the cost per share of \$13.70, is reflected in the income statement, net of the original issue discount, and added to net income allocable to common shareholders. After the purchase, 5,350,000 depositary shares of Preferred Stock, Series P remained outstanding.

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.

The Company paid \$50.9 million, \$50.9 million and \$44.6 million in distributions to its preferred shareholders for the years ended December 31, 2008, 2007 and 2006, 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, 2008, 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, 2008 and 2007, the Company had \$23.4 million and \$23.7 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 6.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the year ended December 31, 2008, 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. 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. In 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. 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. As of December 31, 2008, the Company can repurchase 2.2 million shares under existing board authorizations.

The Company paid \$36.0 million (\$1.76 per common share), \$34.3 million (\$1.61 per common share) and \$24.7 million (\$1.16 per common share) in distributions to its common shareholders for the years ended December 31, 2008, 2007 and 2006, respectively. The portion of the distributions classified as ordinary income was 100.0%, 97.8% and 100.0% for the years ended December 31, 2008, 2007 and 2006, respectively. The portion of the distributions classified as long-term capital gain income was 2.2% for the year ended December 31, 2007. No portion of the distributions was classified as long-term capital gain income for the years ended December 31, 2008 and 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, 2008, 2007 and 2006 were \$8.50 per share, \$12.11 per share and \$11.24 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, 2008, 2007 and 2006, respectively; a dividend yield of 3.1%, 2.6% and 2.1%; expected volatility of 19.1%, 18.2% and 17.9%; expected life of five years; and risk-free interest rates of 3.1%, 4.5% and 4.9%.

The weighted average grant date fair value of restricted stock units granted during the years ended December 31, 2008, 2007 and 2006, were \$52.66, \$67.88 and \$55.12, 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, 2008, there were a combined total of 1.2 million options and restricted stock units authorized to grant. Information with respect to outstanding options and nonvested restricted stock units granted under the 1997 Plan and 2003 Plan is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (in thousands)
Options:				
Outstanding at December 31, 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		
Granted	14,000	\$ 57.79		
Exercised	(30,234)	\$ 26.19		
Forfeited		\$		
Outstanding at December 31, 2008	556,353	\$ 39.00	4.66 Years	\$ 4,525
Exercisable at December 31, 2008	451,153	\$ 35.56	4.03 Years	\$ 4,445
	Number of Units	Weighted Average Grant Date Fair Value		
Restricted Stock Units:				
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		

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Granted	47,300	\$ 67.88
Vested	(29,723)	\$ 40.62
Forfeited	(16,550)	\$ 48.69
Nonvested at December 31, 2007	228,227	\$ 53.91
Granted	40,700	\$ 52.66
Vested	(35,499)	\$ 46.57
Forfeited	(3,740)	\$ 54.14
Nonvested at December 31, 2008	229,688	\$ 54.81

Included in the Company's consolidated statements of income for the years ended December 31, 2008, 2007 and 2006 was \$436,000, \$590,000 and \$527,000, respectively, in net compensation expense related to stock options. Net compensation expense of \$3.5 million, \$3.0 million and \$2.3 million related to restricted stock units was recognized during the years ended December 31, 2008, 2007 and 2006, respectively.

As of December 31, 2008, there was \$773,000 of unamortized compensation expense related to stock options expected to be recognized over a weighted average period of 2.6 years. As of December 31, 2008, there was \$5.9 million of unamortized compensation expense related to restricted stock units expected to be recognized over a weighted average period of 3.3 years.

Cash received from 30,234 stock options exercised during the year ended December 31, 2008 was \$792,000. Cash received from 43,384 stock options exercised during the year ended December 31, 2007 was \$1.5 million.

Cash received from 37,900 stock options exercised during the year ended December 31, 2006 was \$1.4 million. The aggregate intrinsic value of the stock options exercised during the years ended December 31, 2008, 2007 and 2006 was \$844,000, \$1.2 million and \$907,000, respectively.

During the year ended December 31, 2008, 35,499 restricted stock units vested; in settlement of these units, 22,505 shares were issued, net of shares applied to payroll taxes. The aggregate fair value of the shares vested for the year ended December 31, 2008 was \$1.8 million. 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 shares 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 shares vested for the year ended December 31, 2006 was \$1.4 million.

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 consolidated statements of income was \$101,000, \$101,000 and \$66,000 for the years ended December 31, 2008, 2007 and 2006, respectively, in compensation expense. As of December 31, 2008, 2007 and 2006, there was \$210,000, \$312,000 and \$413,000, 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. No shares were issued during the year ended December 31, 2008.

11. Supplementary quarterly financial data (unaudited)

	March 31, 2007	Three Months Ended		
		June 30, 2007	September 30, 2007	December 31, 2007
		(In thousands, except per share data)		
Revenues	\$ 65,307	\$ 67,457	\$ 68,707	\$ 70,028
Cost of operations	\$ 20,439	\$ 21,022	\$ 21,204	\$ 21,695
Net income allocable to common shareholders	\$ 5,893	\$ 3,727	\$ 4,213	\$ 3,704
Net income per share:				
Basic	\$ 0.28	\$ 0.17	\$ 0.20	\$ 0.17
Diluted	\$ 0.28	\$ 0.17	\$ 0.20	\$ 0.17

	March 31, 2008	Three Months Ended		
		June 30, 2008	September 30, 2008	December 31, 2008
		(In thousands, except per share data)		

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Revenues	\$ 70,306	\$ 70,623	\$ 71,642	\$ 71,660
Cost of operations	\$ 22,490	\$ 21,939	\$ 22,591	\$ 21,422
Net income allocable to common shareholders	\$ 3,749	\$ 4,561	\$ 5,336	\$ 9,533
Net income per share:				
Basic	\$ 0.18	\$ 0.22	\$ 0.26	\$ 0.47
Diluted	\$ 0.18	\$ 0.22	\$ 0.26	\$ 0.47

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) in 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, 2008, 2007 and 2006, \$274,000, \$267,000 and \$237,000, respectively, was charged as expense related to this plan.

14. Recent accounting pronouncements

Effective January 1, 2008, the Company adopted, on a prospective basis, SFAS No. 157, Fair Value Measurements (SFAS 157) as amended by FASB Staff Position SFAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP FAS 157-1) and FASB Staff Position SFAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2). SFAS 157 defines fair value, establishes a framework for measuring fair value according to GAAP and provides for expanded disclosure about fair value measurements. SFAS 157 applies prospectively to all other accounting pronouncements that require or permit fair value measurements. FSP FAS 157-1 amends SFAS 157 to exclude from the scope of SFAS 157 certain leasing transactions accounted for under SFAS No. 13, Accounting for Leases. FSP FAS 157-2 amends SFAS 157 to defer the effective date of SFAS 157 for all non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008.

The adoption of SFAS 157 did not have a material impact on the Company's consolidated financial statements. Management is evaluating the impact that SFAS 157 will have on its non-financial assets and non-financial liabilities since the application of SFAS 157 for such items was deferred to January 1, 2009. The Company believes that the impact of these items will not be material to its consolidated financial statements.

Effective January 1, 2008, the Company adopted, on a prospective basis, SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The adoption of SFAS 159 did not have a material impact on the Company's consolidated financial statements since the Company did not elect to apply the fair value option for any of its eligible financial instruments or other items on the January 1, 2008 effective date.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations (SFAS 141R), to create greater consistency in the accounting and financial reporting of business combinations. SFAS 141R requires a company to recognize fair value of the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity to be measured at their fair values as of the acquisition date. SFAS 141R also requires companies to recognize the fair value of assets acquired, the liabilities assumed and any noncontrolling interest in acquisitions of less than a 100% interest when the acquisition constitutes a change in control of the acquired entity. In addition, SFAS 141R requires that acquisition-related costs and restructuring costs be recognized separately from the business combination and expensed as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after January 1, 2009. Early adoption is prohibited. The Company is currently evaluating the impact of SFAS 141R on our consolidated financial statements.

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2008
(DOLLARS IN THOUSANDS)

				Cost Capitalized Subsequent		Gross Amount at Which Carried at				
	Location	Encumbrances	Initial Cost to Company Buildings and	Acquisition Buildings and	to	December 31, 2008 Buildings and	Total	Accumulated Depreciation	Year(s) Acq	
rk	Phoenix, AZ	\$	\$ 5,130	\$17,514	\$ 2,192	\$ 5,130	\$ 19,706	\$ 24,836	\$ 7,892	1999/200
	Mesa, AZ		675	1,692	2,758	675	4,450	5,125	1,915	1997
	Tempe, AZ		195	522	640	195	1,162	1,357	599	1997
	Tempe, AZ		2,805	7,107	5,625	2,805	12,732	15,537	6,958	1997
e	Hayward, CA		4,398	10,433	3,837	4,398	14,270	18,668	5,846	1997
	Monterey, CA		288	706	258	288	964	1,252	456	1997
ss	Sacramento, CA		3,031	13,826	4,871	3,031	18,697	21,728	9,155	1999
ate	Sacramento, CA		1,710	4,567	2,760	1,710	7,327	9,037	3,680	1997
	San Jose, CA		4,379	12,889	4,580	4,379	17,469	21,848	9,586	1998
	San Jose, CA		3,458	8,765	2,602	3,458	11,367	14,825	4,974	1997
	San Jose, CA		3,540	4,896	421	3,540	5,317	8,857	831	2006
	San Ramon, CA		1,486	3,642	936	1,486	4,578	6,064	1,989	1997
	Santa Clara, CA		17,218	21,914	3,036	17,218	24,950	42,168	8,199	2007
ark	Santa Clara, CA		7,673	15,645	735	7,673	16,380	24,053	6,753	2000
	So. San Francisco, CA		899	2,387	520	899	2,907	3,806	1,182	1997
	So. San Francisco, CA		776	1,886	363	776	2,249	3,025	859	1997
al	Buena Park, CA		3,245	7,703	1,684	3,245	9,387	12,632	4,061	1997
	Carson, CA		990	2,496	1,080	990	3,576	4,566	1,719	1997
enter	Cerritos, CA		4,218	10,273	3,009	4,218	13,282	17,500	5,818	1997
	Cerritos, CA		450	1,217	841	450	2,058	2,508	857	1997
	Culver City, CA		3,252	8,157	5,838	3,252	13,995	17,247	6,221	1997
	Irvine, CA		6,876	18,519	5,167	6,876	23,686	30,562	10,241	2000
er	Laguna Hills, CA		16,261	39,559	3,348	16,261	42,907	59,168	16,932	1997
	Laguna Hills, CA		2,037	5,051	3,416	2,037	8,467	10,504	4,500	1997
	Lake Forest, CA		5,508	13,785	4,058	5,508	17,843	23,351	7,754	1997
	Monterey Park, CA		3,078	7,862	1,054	3,078	8,916	11,994	3,875	1997
	Orange County, CA		9,405	35,746	15,111	9,405	50,857	60,262	31,938	2003

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Business

	Orange County, CA		2,637	12,291	2,694	2,637	14,985	17,622	5,293	2003
	San Diego, CA		2,894	7,089	2,160	2,894	9,249	12,143	3,885	1997
	San Diego, CA		5,711	14,049	4,664	5,711	18,713	24,424	8,251	1997
ess	San Diego, CA	14,247	15,129	20,054	1,147	15,129	21,201	36,330	6,679	2005
	Signal Hill, CA		6,693	12,699	1,716	6,693	14,415	21,108	4,997	1997/200
	Studio City, CA		621	1,530	298	621	1,828	2,449	798	1997
	Torrance, CA		2,318	6,069	1,809	2,318	7,878	10,196	3,649	1997
	Boca Raton, FL	10,053	7,795	9,258	363	7,795	9,621	17,416	1,360	2006
	Miami, FL		88,134	97,804	26,379	88,134	124,183	212,317	49,466	2003
	Wellington, FL	12,952	10,845	18,560	684	10,845	19,244	30,089	2,797	2006
	Beltsville, MD		4,278	18,380	7,048	4,278	25,428	29,706	13,814	1998
opher	Gaithersburg, MD		475	1,203	421	475	1,624	2,099	744	1997

Location	Encumbrances	Cost Capitalized Subsequent to			Gross Amount at Which Carried at			Accumulated Depreciation	Year(s)
		Initial Cost to Company	Buildings and Improvements	Acquisition Buildings and Improvements	December 31, 2008	Buildings and Improvements	Total		
Rockville, MD		33,995	94,463	24,879	33,995	119,342	153,337	50,603	2000
Over Spring, MD	16,912	25,261	74,572	5,965	25,261	80,537	105,798	16,699	2000
Averton, OR		20,616	63,235	10,943	20,616	74,178	94,794	31,747	2000
Averton, OR		15,007	47,125	16,313	15,007	63,438	78,445	33,042	1998/2000
Blwaukie, OR		1,125	2,857	1,409	1,125	4,266	5,391	1,880	1998
Illas, TX		304	1,545	674	304	2,219	2,523	1,060	1998
Illas, TX		1,274	5,505	2,253	1,274	7,758	9,032	3,775	1998
Farmers Branch, TX		941	6,884	1,395	941	8,279	9,220	2,947	2000
Arland, TX		480	1,203	516	480	1,719	2,199	765	1998
ing, TX		1,517	6,499	1,698	1,517	8,197	9,714	4,333	1998
ing, TX		13,707	51,560	17,548	13,707	69,108	82,815	30,218	1998/2000
esquite, TX		495	1,235	541	495	1,776	2,271	781	1998
ino, TX		1,536	6,654	3,612	1,536	10,266	11,802	4,820	1998
Richardson, TX		799	3,568	2,096	799	5,664	6,463	2,873	1998
stin, TX		1,550	7,015	789	1,550	7,804	9,354	3,640	1998
stin, TX		2,528	6,596	3,690	2,528	10,286	12,814	5,991	1998
stin, TX		1,411	6,384	1,444	1,411	7,828	9,239	4,000	1998
stin, TX		437	2,013	957	437	2,970	3,407	1,709	1998
stin, TX		2,022	9,397	2,859	2,022	12,256	14,278	5,046	1998
stin, TX		2,108	9,649	2,282	2,108	11,931	14,039	5,555	1998
uston, TX		1,140	3,003	4,469	1,140	7,472	8,612	3,977	1998
uston, TX		2,173	7,338	1,514	2,173	8,852	11,025	3,654	1998
ssouri City, TX		360	918	719	360	1,637	1,997	823	1998
ringfield, VA		1,935	4,736	3,845	1,935	8,581	10,516	4,256	1998
antilly, VA		4,736	11,051	1,520	4,736	12,571	17,307	3,212	2000
exandria, VA		2,197	5,380	2,677	2,197	8,057	10,254	3,779	1998
antilly, VA		1,373	6,810	1,727	1,373	8,537	9,910	3,975	1998
exandria, VA		1,440	3,635	2,011	1,440	5,646	7,086	2,813	1998
irfax, VA		13,598	36,232	4,296	13,598	40,528	54,126	10,457	2000
erton, VA		4,146	17,872	3,347	4,146	21,219	25,365	9,789	1998
ringfield, VA		3,535	15,672	8,897	3,535	24,569	28,104	14,950	2000

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antilly, VA		1,680	13,398	2,886	1,680	16,284	17,964	8,429	199
rndon, VA		6,737	18,911	7,938	6,737	26,849	33,586	13,007	199
erling, VA		2,767	8,778	3,569	2,767	12,347	15,114	6,891	199
antilly, VA	5,144	3,851	18,029	3,987	3,851	22,016	25,867	9,581	1
irfax, VA		23,147	67,575	15,441	23,147	83,016	106,163	35,653	2
erling, VA		2,969	10,008	3,495	2,969	13,503	16,472	7,520	1
oodbridge, VA		1,350	3,398	1,249	1,350	4,647	5,997	2,248	1
dmond, WA		27,761	49,353	2,758	27,761	52,111	79,872	14,328	2
nton, WA		330	889	463	330	1,352	1,682	599	1
	\$ 59,308	\$ 494,849	\$ 1,208,690	\$ 308,794	\$ 494,849	\$ 1,517,484	\$ 2,012,333	\$ 637,948	

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: June 17, 2009

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
(Items 15(a)(3) and 15(b))

- 3.1 Restated Articles of Incorporation. Filed with Registrant's Registration Statement on Form S-3 (No. 333-78627) and incorporated herein by reference.
- 3.2 Certificate of Determination of Preferences of 8.75% Series C Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.3 Certificate of Determination of Preferences of 8.875% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.4 Amendment to Certificate of Determination of Preferences of 8.875% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.5 Certificate of Determination of Preferences of 8.875% Series Y Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.6 Certificate of Determination of Preferences of 9.50% Series D Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated May 7, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.7 Amendment to Certificate of Determination of Preferences of 9.50% Series D Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.8 Certificate of Determination of Preferences of 9¹/₄% Series E Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.9 Certificate of Determination of Preferences of 8.75% Series F Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated January 18, 2002 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.10 Certificate of Determination of Preferences of 7.95% Series G Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 3.11 Certificate of Determination of Preferences of 7.00% Series H Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. filed with Registrant's Current Report on Form 8-K dated January 16, 2004 and incorporated herein by reference.
- 3.12 Certificate of Determination of Preferences of 6.875% Series I Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated March 31, 2004

and incorporated herein by reference.

- 3.13 Certificate of Determination of Preferences of 7.50% Series J Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.
- 3.14 Certificate of Determination of Preferences of 7.950% Series K Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated June 24, 2004 and incorporated herein by reference.

- 3.15 Certificate of Determination of Preferences of 7.60% Series L Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated August 23, 2004 and incorporated herein by reference.
- 3.16 Certificate of Correction of Certificate of Determination of Preferences for the 7.00% Cumulative Preferred Stock, Series H of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated October 18, 2004 and incorporated herein by reference.
- 3.17 Amendment to Certificate of Determination of Preferences for the 7.00% Cumulative Preferred Stock, Series H of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated October 18, 2004 and incorporated herein by reference.
- 3.18 Certificate of Determination of Preferences of 7.20% Cumulative Preferred Stock, Series M of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated April 29, 2005 and incorporated herein by reference.
- 3.19 Certificate of Determination of Preferences of 7¹/₈% Series N Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated December 16, 2005 and incorporated herein by reference.
- 3.20 Certificate of Determination of Preferences of 7.375% Series O Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated May 18, 2006 and incorporated herein by reference.
- 3.21 Certificate of Correction of Certificate of Determination of Preferences of 7.375% Cumulative Preferred Stock, Series O of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated August 10, 2006 and incorporated herein by reference.
- 3.22 Amendment to Certificate of Determination of Preferences of 7.375% Series O Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated August 10, 2006 and incorporated herein by reference.
- 3.23 Certificate of Determination of Preferences of 6.70% Series P Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated January 9, 2007 and incorporated herein by reference.
- 3.24 Certificate of Determination of Preferences of 6.55% Series Q Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated March 16, 2007 and incorporated herein by reference.
- 3.25 Restated Bylaws. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference
- 4.1 Deposit Agreement Relating to 7.00% Cumulative Preferred Stock, Series H of PS Business Parks, Inc., dated as of January 15, 2004. Filed with Registrant's Current Report on Form 8-K dated January 15, 2004 and incorporated herein by reference.
- 4.2

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Specimen Stock Certificate for Registrant's 7.00% Cumulative Preferred Stock, Series H. Filed with Registrant's Current Report on Form 8-K dated January 15, 2004 and incorporated herein by reference.

- 4.3 Deposit Agreement Relating to 6.875% Cumulative Preferred Stock, Series I of PS Business Parks, Inc., dated as of March 31, 2004. Filed with Registrant's Current Report on Form 8-K dated March 31, 2004 and incorporated herein by reference.
- 4.4 Specimen Stock Certificate for Registrant's 6.875% Cumulative Preferred Stock, Series I. Filed with Registrant's Current Report on Form 8-K dated March 31, 2004 and incorporated herein by reference.
- 4.5 Deposit Agreement Relating to 7.95% Cumulative Preferred Stock, Series K of PS Business Parks, Inc., dated as of June 24, 2004. Filed with Registrant's Current Report on Form 8-K dated June 24, 2004 and incorporated herein by reference.

- 4.6 Specimen Stock Certificate for Registrant s 7.95% Cumulative Preferred Stock, Series K. Filed with Registrant s Current Report on Form 8-K dated June 24, 2004 and incorporated herein by reference.
- 4.7 Deposit Agreement Relating to 7.60% Cumulative Preferred Stock, Series L of PS Business Parks, Inc., dated as of August 23, 2004. Filed with Registrant s Current Report on Form 8-K dated August 23, 2004 and incorporated herein by reference.
- 4.8 Specimen Stock Certificate for Registrant s 7.60% Cumulative Preferred Stock, Series L. Filed with Registrant s Current Report on Form 8-K dated August 23, 2004 and incorporated herein by reference.
- 4.9 Deposit Agreement Relating to 7.20% Cumulative Preferred Stock, Series M of PS Business Parks, Inc., dated as of April 27, 2005. Filed with Registrant s Current Report on Form 8-K dated April 27, 2005 and incorporated herein by reference.
- 4.10 Specimen Stock Certificate for Registrant s 7.20% Cumulative Preferred Stock, Series M. Filed with Registrant s Current Report on Form 8-K dated April 27, 2005 and incorporated herein by reference.
- 4.11 Deposit Agreement Relating to 7.375% Cumulative Preferred Stock, Series O of PS Business Parks, Inc., dated as of May 18, 2006. Filed with Registrant s Current Report on Form 8-K dated May 18, 2006 and incorporated herein by reference.
- 4.12 Specimen Stock Certificate for Registrant s 7.375% Cumulative Preferred Stock, Series O. Filed with Registrant s Current Report on Form 8-K dated May 18, 2006 and incorporated herein by reference.
- 4.13 Deposit Agreement Relating to 6.70% Cumulative Preferred Stock, Series P of PS Business Parks, Inc., dated as of January 9, 2007. Filed with Registrant s Current Report on Form 8-K dated January 9, 2007 and incorporated herein by reference.
- 4.14 Specimen Stock Certificate for Registrant s 6.70% Cumulative Preferred Stock, Series P. Filed with Registrant s Current Report on Form 8-K dated January 9, 2007 and incorporated herein by reference.
- 10.1 Amended Management Agreement between Storage Equities, Inc. and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with PS s Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-08389) and incorporated herein by reference.
- 10.2 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.3* Offer Letter/ Employment Agreement between Registrant and Joseph D. Russell, Jr., dated as of September 6, 2002. Filed with Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and incorporated herein by reference.
- 10.4 Form of Indemnity Agreement. Filed with Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.5* Form of Indemnification Agreement for Executive Officers. Filed with Registrant s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.

- 10.6 Cost Sharing and Administrative Services Agreement dated as of November 16, 1995 by and among PSCC, Inc. and the owners listed therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.

- 10.7 Amendment to Cost Sharing and Administrative Services Agreement dated as of January 2, 1997 by and among PSCC, Inc. and the owners listed therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.8 Accounts Payable and Payroll Disbursement Services Agreement dated as of January 2, 1997 by and between PSCC, Inc. and AOPP LP. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.9 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.875% Series B Cumulative Redeemable Preferred Units, dated as of April 23, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.10 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9.25% Series A Cumulative Redeemable Preferred Units, dated as of April 30, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.11 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.75% Series C Cumulative Redeemable Preferred Units, dated as of September 3, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.12 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.875% Series X Cumulative Redeemable Preferred Units, dated as of September 7, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.13 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to Additional 8.875% Series X Cumulative Redeemable Preferred Units, dated as of September 23, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.14 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.875% Series Y Cumulative Redeemable Preferred Units, dated as of July 12, 2000. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.15 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9.50% Series D Cumulative Redeemable Preferred Units, dated as of May 10, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.16 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9.50% Series D Cumulative Redeemable Preferred Units, dated as of June 18, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 001-10709) and incorporated herein by reference.

- 10.17 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9¹/₄% Series E Cumulative Redeemable Preferred Units, dated as of September 21, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.18 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.75% Series F Cumulative Redeemable Preferred Units, dated as of January 18, 2002. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.19 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.95% Series G Cumulative Redeemable Preferred Units, dated as of October 30, 2002. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.

- 10.20 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.00% Series H Cumulative Redeemable Preferred Units, dated as of January 16, 2004. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 10.21 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 6.875% Series I Cumulative Redeemable Preferred Units, dated as of April 21, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 10.22 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.50% Series J Cumulative Redeemable Preferred Units, dated as of May 27, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.
- 10.23 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.50% Series J Cumulative Redeemable Preferred Units, dated as of June 17, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.
- 10.24 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.95% Series K Cumulative Redeemable Preferred Units, dated as of June 30, 2004, filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.
- 10.25 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.60% Series L Cumulative Redeemable Preferred Units, dated as of August 31, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 10.26 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.00% Series H Cumulative Redeemable Preferred Units, dated as of October 25, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 10.27 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.20% Series M Cumulative Redeemable Preferred Units, dated as of May 2, 2005. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 and incorporated herein by reference.
- 10.28 Amendment No. 1 to Amendment to Agreement of Limited Partnership Relating to 7.20% Series M Cumulative Redeemable Preferred Units, dated as of May 9, 2005. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference.
- 10.29 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7¹/₈% Series N Cumulative Redeemable Preferred Units, dated as of December 12, 2005. Filed with Registrant's Current Report on Form 8-K dated December 16, 2005 and incorporated herein by reference.

- 10.30 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.375% Series O Cumulative Redeemable Preferred Units, dated as of June 16, 2006. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 and incorporated herein by reference.
- 10.31 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.375% Series O Cumulative Redeemable Preferred Units, dated as of August 16, 2006. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference.

- 10.32 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 6.70% Series P Cumulative Redeemable Preferred Units, dated as of January 9, 2007. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference.
- 10.33 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 6.55% Series Q Cumulative Redeemable Preferred Units, dated as of March 12, 2007. Filed with Registrant's Current Report on Form 8-K dated March 16, 2007 and incorporated herein by reference.
- 10.34 Registration Rights Agreement by and between PS Business Parks, Inc. and GSEP 2002 Realty Corp., dated as of October 30, 2002, relating to 7.95% Series G Cumulative Redeemable Preferred Units. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference.
- 10.35 Amended and Restated Registration Rights Agreement by and between PS Business Parks, Inc. and GSEP 2004 Realty Corp., dated as of June 17, 2004, relating to 7.50% Series J Cumulative Redeemable Preferred Units. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference.
- 10.36 Registration Rights Agreement by and between PS Business Parks, Inc. and GSEP 2005 Realty Corp., dated as of December 12, 2005. Filed with Registrant's Current Report on Form 8-K dated December 16, 2005 and incorporated herein by reference.
- 10.37 Registration Rights Agreement by and between PS Business Parks, Inc. and GSEP 2006 Realty Corp., dated as of March 12, 2007. Filed with Registrant's Current Report on Form 8-K dated March 16, 2007 and incorporated herein by reference.
- 10.38 Amended and Restated Revolving Credit Agreement dated as of October 29, 2002 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.39 Modification Agreement, dated as of December 29, 2003. Filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference. This exhibit modifies the Amended and Restated Revolving Credit Agreement dated as of October 29, 2002 and filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.40 Modification Agreement, dated as of January 23, 2004. Filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference. This exhibit modifies the Modification Agreement dated as of December 29, 2003 and filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 10.41 Third Modification Agreement, dated as of August 5, 2005. Filed with the Registrant's Current Report on Form 8-K dated August 5, 2005 and incorporated herein by reference. This exhibit modifies the Modification Agreement dated as of January 23, 2004 and filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.

- 10.42 Fourth Modification Agreement dated as of July 30, 2008 to Amended and Restated Revolving Credit Agreement dated October 29, 2002. Filed with Registrant's Current Report of Form 8-K dated August 5, 2008 and incorporated herein by reference.
- 10.43 Letter Agreement, dated as of December 29, 2003, between Public Storage, Inc. and PS Business Parks, L.P. Filed with the Registrant's Current Report on Form 8-K dated January 14, 2004 and incorporated herein by reference.
- 10.44* Registrant's 1997 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement on Form S-8 (No. 333-48313) and incorporated herein by reference.

- 10.45* Registrant's 2003 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement on Form S-8 (No. 333-104604) and incorporated herein by reference.
- 10.46* Retirement Plan for Non-Employee Directors. Filed with Registrant's Registration Statement on Form S-8 (No. 333-129463) and incorporated herein by reference.
- 10.47* Form of PS Business Parks, Inc. Restricted Stock Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 10.48* Form of PS Business Parks, Inc. 2003 Stock Option and Incentive Plan Non-Qualified Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 10.49* Form of PS Business Parks, Inc. 2003 Stock Option and Incentive Plan Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 12 Statement re: Computation of Ratio of Earnings to Fixed Charges. Filed herewith.
- 21 List of Subsidiaries. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.
- 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.

* Management contract or compensatory plan or arrangement