

PS BUSINESS PARKS INC/CA
Form 424B5
August 15, 2006
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Filed pursuant to Rule 424(b)(5)

Registration No. 333-112969

PROSPECTUS SUPPLEMENT

(To Prospectus dated March 5, 2004)

800,000 Shares

PS Business Parks, Inc.

Depository Shares Each Representing 1/1,000 of a Share of

7.375% Cumulative Preferred Stock, Series O

Liquidation Preference Equivalent to \$25.00 Per Depository Share

We are selling 800,000 Depository Shares each representing 1/1,000 of a share of our 7.375% Cumulative Preferred Stock, Series O. The shares of Preferred Stock represented by the Depository Shares will be deposited with American Stock Transfer & Trust Company as depositary. As a holder of Depository Shares, you will be entitled to all proportional rights, preferences and privileges of the Preferred Stock. The following is a summary of the Preferred Stock:

We will pay cumulative distributions on the Preferred Stock, from the date of original issuance, at the rate of 7.375% of the liquidation preference per year (\$1.84375 per year per Depository Share).

We will pay distributions on the Preferred Stock quarterly, beginning with the period ending on September 30, 2006 (with the payment for the period ending on that date being based pro rata on the number of days from June 16, 2006).

We are not allowed to redeem the Preferred Stock before June 16, 2011, except in order to preserve our status as a real estate investment trust.

On and after June 16, 2011, we may, at our option, redeem the Preferred Stock by paying you \$25.00 per Depository Share, plus any accrued and unpaid distributions.

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The Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities.

Investors in the Depositary Shares representing interests in the Preferred Stock generally have no voting rights, except if we fail to pay distributions for six or more quarters or as required by law.

The outstanding Depositary Shares are listed on the American Stock Exchange, or AMEX, under the symbol PSBPrO. The last reported sales price of the Depositary Shares on the AMEX on August 10, 2006 was \$25.85 per Depositary Share. We will apply to have the Depositary Shares offered hereby listed on the AMEX.

Investing in the Depositary Shares involves certain risks that are described in the Risk Factors section beginning on page 1 of the accompanying prospectus as well as the risk factors set forth in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2006.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Depositary Share	Total
Public Offering Price(1)	\$ 25.00	\$ 20,000,000.00
Underwriting Discount(2)	\$ 0.50	\$ 400,000.00
Proceeds to PS Business Parks (before expenses)(1),(2)	\$ 24.50	\$ 19,600,000.00

(1) Investors who purchase Depositary Shares offered hereby for delivery on August 16, 2006 will be required to pay the public offering price appearing above plus an amount equal to \$0.29 per Depositary Share representing a portion of the accrued dividends from June 16, 2006.

(2) Assumes all institutional orders. See Underwriting section beginning on page S-18 of this prospectus supplement for a discussion regarding certain additional underwriting compensation and discounts.

The underwriter is offering the Depositary Shares subject to various conditions. The underwriter expects to deliver the Depositary Shares to purchasers on or about August 16, 2006.

Wachovia Securities

August 11, 2006

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus we may authorize to be delivered to you. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

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This prospectus supplement and the accompanying prospectus, including documents incorporated by reference, contain forward-looking statements. Forward-looking statements are inherently subject to risk and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors and in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2005, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 which are incorporated herein by reference.

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SUMMARY OF THE OFFERING

Issuer	PS Business Parks, Inc.
Securities Offered	800,000 Depositary Shares each representing 1/1,000 of a share of our 7.375% Cumulative Preferred Stock, Series O.
Depositary Shares representing Series O Preferred Stock to be Outstanding after this Offering	3,800,000.
Price per Depositary Share	\$25.00 (plus, for investors purchasing Depositary Shares offered hereby for delivery on August 16, 2006, \$0.29 per Depositary Share representing a portion of the accrued dividends from June 16, 2006).
Use of Proceeds	For property acquisitions, possible redemptions of preferred securities that are first redeemable in September 2006 and general corporate purposes.
Ranking	<p>With respect to the payment of dividends and amounts upon liquidation, the Series O Preferred Stock ranks:</p> <p style="padding-left: 40px;">on a parity with our 8.750% Cumulative Preferred Stock, Series F, our 7.000% Cumulative Preferred Stock, Series H, our 6.875% Cumulative Preferred Stock, Series I, our 7.950% Cumulative Preferred Stock, Series K, our 7.60% Cumulative Preferred Stock, Series L, our 7.20% Cumulative Preferred Stock, Series M and any other preferred shares that are not by their terms subordinated to the Series O Preferred Stock, and</p> <p style="padding-left: 40px;">senior to our common stock and any other of our equity securities that by their terms rank junior to the Series O Preferred Stock.</p>
Dividends	<p>Holders of Series O Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors out of assets of the Company legally available for payment, cash dividends payable quarterly in arrears on or before the last day of March, June, September and December of each year, commencing with the period ending on September 30, 2006, at the rate of 7.375% of the liquidation preference per year (\$1.84375 per year per Depositary Share). Dividends on the Series O Preferred Stock will accumulate whether or not we have earnings, whether or not we have funds legally available for the payment of such dividends and whether or not we declare dividends.</p>
Liquidation Rights	The Series O Preferred Stock has a liquidation preference equal to \$25.00 per Depositary Share, plus accrued and unpaid dividends, if any.
Redemption	We are not allowed to redeem the Series O Preferred Stock before June 16, 2011, except in order to preserve our status as a REIT. On and after June 16, 2011, we may, at our option, redeem the Series O Preferred Stock in whole or in part by paying you \$25.00 per Depositary Share, plus any accrued and unpaid dividends.

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Voting Rights

Holders of the Series O Preferred Stock will generally have no voting rights. If dividends on the Series O Preferred Stock are in arrears for six or more quarterly periods, whether or not such quarterly periods are consecutive, holders of Series O Preferred Stock (voting together with all other series of preferred shares) will be entitled to vote for the election of two additional directors to serve on our Board of Directors until all such arrearages have been paid.

No Conversion

The Series O Preferred Stock is not convertible into shares of any other class or series of capital stock of the Company.

Trading

The outstanding Depositary Shares are listed on the AMEX under the symbol PSBPrO. We will apply to have the Depositary Shares offered hereby listed on the AMEX.

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THE COMPANY

We are a fully-integrated, self-advised and self-managed real estate investment trust, or REIT, that acquires, develops, owns and operates commercial properties. We are the sole general partner of our operating partnership, PS Business Parks, L.P., through which we conduct most of our activities. At June 30, 2006, we had interests in properties in eight states containing approximately 18.2 million net rentable square feet of commercial space.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will approximate \$19,600,000 after all anticipated issuance costs, and excluding the \$0.29 per Depositary Share, representing a portion of the accrued dividends on such shares, to be paid by investors who purchase Depositary Shares offered hereby for delivery on August 16, 2006. We may contribute all or a portion of the net proceeds from this offering to our operating partnership in exchange for preferred units of limited partnership that have substantially identical economic terms as the Preferred Stock. We or our operating partnership intend to use the net proceeds from this offering for property acquisitions, possible redemptions of preferred securities that are first redeemable in September 2006 and general corporate purposes. We currently have no agreements or commitments with respect to any property acquisitions or preferred stock redemptions.

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DESCRIPTION OF PREFERRED STOCK AND DEPOSITARY SHARES

General

Under our Articles of Incorporation, as amended, the Board of Directors is authorized without further shareholder action to provide for the issuance of up to 50,000,000 shares of preferred stock, in one or more series, with such dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption, redemption price and liquidation preference as shall be set forth in resolutions providing for the issue of preferred stock adopted by the Board of Directors. At June 30, 2006, we had outstanding 24,100 shares of preferred stock (represented by 24,100,000 depositary shares) and had reserved for issuance an additional 5,430,000 shares of preferred stock represented by 5,430,000 preferred operating partnership units.

The Board of Directors has adopted resolutions creating the 7.375% Cumulative Preferred Stock, Series O (the Preferred Stock). 3,000 shares of Preferred Stock (represented by 3,000,000 Depositary Shares) are currently outstanding. We have authorized the issuance of 800 additional shares of Preferred Stock (represented by 800,000 Depositary Shares). Upon completion of this offering, there will be 3,800 shares of Preferred Stock outstanding (represented by 3,800,000 Depositary Shares). When issued, the Preferred Stock will have a liquidation preference of \$25,000 per share, will be fully paid and nonassessable, will not be subject to any sinking fund or other obligation of PS Business Parks, Inc. (the Company) to repurchase or retire the Preferred Stock, and will have no preemptive rights.

American Stock Transfer & Trust Company is the transfer agent and dividend disbursing agent for the Preferred Stock.

Each Depositary Share represents 1/1,000 of a share of Preferred Stock (Depositary Share). The shares of the Preferred Stock will be deposited with American Stock Transfer & Trust Company, as Depositary (the Preferred Stock Depositary), under a Deposit Agreement among the Company, the Preferred Stock Depositary and the holders from time to time of the depositary receipts (the Depositary Receipts) issued by the Preferred Stock Depositary under the Deposit Agreement. The Depositary Receipts will evidence the Depositary Shares. Subject to the terms of the Deposit Agreement, each holder of a Depositary Receipt evidencing a Depositary Share will be entitled, proportionately, to all the rights and preferences of, and subject to all of the limitations of, the interest in the Preferred Stock represented by the Depositary Share (including dividend, voting, redemption and liquidation rights and preferences). See Description of the Depositary Shares in the accompanying Prospectus and Depositary Shares below.

Immediately following our issuance of the Preferred Stock, we will deposit the Preferred Stock with the Preferred Stock Depositary, which will then issue and deliver the Depositary Receipts to us. We will, in turn, deliver the Depositary Receipts to the underwriters. Depositary Receipts will be issued evidencing only whole Depositary Shares. There are currently 3,000,000 Depositary Shares outstanding. Upon completion of this offering, there will be 3,800,000 Depositary Shares outstanding.

The outstanding Depositary Shares are listed on the American Stock Exchange, or AMEX. We have applied to have the Depositary Shares offered hereby listed on the AMEX. The Preferred Stock is not listed and we do not expect that there will be any trading market for the Preferred Stock except as represented by the Depositary Shares.

Investors who purchase Depositary Shares offered hereby for delivery on August 16, 2006 will be required to pay the \$25.00 public offering price plus an amount equal to \$0.29 per Depositary Share representing a portion of the accrued dividends from June 16, 2006. The first dividend

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on the Depositary Shares will be payable for the period ending on September 30, 2006 and will be calculated as if the Depositary Shares had been outstanding from June 16, 2006.

Ownership Restrictions

For a discussion of ownership limitations that apply to the Preferred Stock and related Depositary Shares, see Description of Common Stock Ownership Limitations in the accompanying Prospectus.

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Preferred Stock

The following is a brief description of the terms of the Preferred Stock which does not purport to be complete and is subject to and qualified in its entirety by reference to the Certificate of Determination of the Preferred Stock, the form of which is filed as an exhibit to, or incorporated by reference in, the Registration Statement of which this Prospectus Supplement constitutes a part.

Ranking

With respect to the payment of dividends and amounts upon liquidation, the Preferred Stock will rank pari passu with our 8.750% Cumulative Preferred Stock, Series F, our 7.000% Cumulative Preferred Stock, Series H, our 6.875% Cumulative Preferred Stock, Series I, our 7.950% Cumulative Preferred Stock, Series K, our 7.60% Cumulative Preferred Stock, Series L, our 7.20% Cumulative Preferred Stock, Series M (collectively, with the Preferred Stock, the Senior Preferred Stock) and any other shares of preferred stock issued by us, whether now or hereafter issued, ranking pari passu with the Senior Preferred Stock (including shares of preferred stock issued upon conversion of the 9 1/4% Series E Cumulative Redeemable Preferred Units, the 7.95% Series G Cumulative Redeemable Preferred Units, the 7.50% Series J Cumulative Redeemable Preferred Units, and the 7 1/8% Series N Cumulative Redeemable Preferred Units of our operating partnership), and will rank senior to the Common Stock and any other capital stock of the Company ranking junior to the Preferred Stock.

Dividends

Holders of shares of Preferred Stock, in preference to the holders of shares of the Common Stock, and of any other capital stock issued by us ranking junior to the Preferred Stock as to payment of dividends, will be entitled to receive, when, as and if declared by the Board of Directors out of assets of the Company legally available for payment, cash dividends payable quarterly at the rate of 7.375% of the liquidation preference per year (\$1,843.75 per year per share of Preferred Stock, equivalent to \$1.84375 per year per Depositary Share). Dividends on the shares of Preferred Stock will be cumulative from the date of issuance and will be payable, when, as and if declared by the Board of Directors, quarterly on or before March 31, June 30, September 30 and December 31, commencing on or before September 30, 2006, to holders of record as they appear on the stock register of the Company on such record dates, not less than 15 or more than 45 days preceding the payment dates thereof, as shall be fixed by the Board of Directors. After full dividends on the Preferred Stock have been paid or declared and funds set aside for payment for all past dividend periods and for the then current quarter, the holders of shares of Preferred Stock will not be entitled to any further dividends with respect to that quarter.

When dividends are not paid in full upon the Preferred Stock and any other shares of preferred stock of the Company ranking on a parity as to dividends with the Preferred Stock (including the other series of Senior Preferred Stock), all dividends declared upon the Preferred Stock and any other preferred shares of the Company ranking on a parity as to dividends with the Preferred Stock shall be declared pro rata so that the amount of dividends declared per share on such Preferred Stock and such other shares shall in all cases bear to each other the same ratio that the accrued dividends per share on the Preferred Stock and such other preferred shares bear to each other. Except as set forth in the preceding sentence, unless full dividends on the Preferred Stock have been paid for all past dividend periods, no dividends (other than in Common Stock or other shares of capital stock issued by us ranking junior to the Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment, nor shall any other distribution be made on the Common Stock or on any other shares of capital stock issued by us ranking junior to or on a parity with the Preferred Stock as to dividends or upon liquidation.

Unless full dividends on the Preferred Stock have been paid for all past dividend periods, we and our subsidiaries may not redeem, repurchase or otherwise acquire for any consideration (nor may we or they pay or make available any moneys for a sinking fund for the redemption of) any

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shares of Common Stock or any other shares of capital stock issued by us ranking junior to or on a parity with the Preferred Stock as to dividends or upon liquidation except by conversion into or exchange for shares of capital stock issued by us ranking junior to the Preferred Stock as to dividends and upon liquidation.

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If for any taxable year, we elect to designate as capital gain dividends (as defined in the Internal Revenue Code) any portion of the dividends paid or made available for the year to the holders of all classes and series of our stock, then the portion of the dividends designated as capital gain dividends that will be allocable to the holders of Preferred Stock will be an amount equal to the total capital gain dividends multiplied by a fraction, the numerator of which will be the total dividends paid or made available to the holders of Preferred Stock for the year, and the denominator of which will be the total dividends paid or made available to holders of all classes and series of our outstanding stock for that year.

Our revolving credit facility with Wells Fargo restricts our ability to pay distributions in excess of 95% of our Funds from Operations for the prior four fiscal quarters. Funds from operations is defined in the loan agreement generally as net income before gain on sale of real estate, gain or loss from debt restructuring, and deductions for depreciation and amortization. Our management believes that this restriction will not impede our ability to pay the dividends on the Preferred Stock in full.

Dividends paid by regular C corporations to persons or entities that are taxed as individuals now are generally taxed at the rate applicable to long-term capital gains, which is a maximum of 15%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on the Preferred Stock, generally will continue to be taxed at regular ordinary income tax rates, except to the extent that the special rules relating to qualified dividend income and capital gains dividends paid by a REIT apply. See Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders in the accompanying Prospectus.

No Conversion Rights

The Preferred Stock will not be convertible into shares of any other class or series of capital stock of the Company.

Liquidation Rights

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of the Preferred Stock will be entitled to receive out of our assets available for distribution to stockholders, before any distribution of assets is made to holders of Common Stock or of any other shares of capital stock issued by us ranking as to such distribution junior to the Preferred Stock, liquidating distributions in the amount of \$25,000 per share (equivalent to \$25.00 per Depositary Share), plus all accrued and unpaid dividends (whether or not earned or declared) for the then current, and all prior, dividend periods. If upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Preferred Stock and any other shares of stock issued by us ranking as to any such distribution on a parity with the Preferred Stock are not paid in full, the holders of the Preferred Stock and of such other shares will share ratably in any such distribution of assets of the Company in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Preferred Stock will not be entitled to any further participation in any distribution of assets by us.

For purposes of liquidation rights, a consolidation or merger of the Company with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Company is not a liquidation, dissolution or winding up of the Company.

Redemption

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Except in certain circumstances relating to our qualification as a REIT, we may not redeem the shares of Preferred Stock prior to June 16, 2011. On and after June 16, 2011, at any time or from time to time, we may redeem the shares of Preferred Stock in whole or in part at our option at a cash redemption price of \$25,000 per share of Preferred Stock (equivalent to \$25.00 per Depositary Share), plus all accrued and unpaid dividends to

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the date of redemption. If fewer than all the outstanding shares of Preferred Stock are to be redeemed, the shares to be redeemed will be determined by the Board of Directors of the Company, and such shares shall be redeemed pro rata from the holders of record of such shares in proportion to the number of such shares held by such holders (with adjustments to avoid redemption of fractional shares) or by lot in a manner determined by the Board of Directors of the Company.

Notwithstanding the foregoing, if any dividends, including any accumulated dividends, on the Preferred Stock are in arrears, we may not redeem any Preferred Stock unless we redeem simultaneously all outstanding Preferred Stock, and we may not purchase or otherwise acquire, directly or indirectly, any Preferred Stock; provided, however, that this shall not prevent the purchase or acquisition of the Preferred Stock pursuant to a purchase or exchange offer if such offer is made on the same terms to all holders of the Preferred Stock.

Notice of redemption of the Preferred Stock will be given by publication in a newspaper of general circulation in the County of Los Angeles and the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date. A similar notice will be mailed by us, postage prepaid, not less than 30 or more than 60 days prior to the redemption date, addressed to the respective holders of record of shares of Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Company. Each notice shall state: (i) the redemption date; (ii) the number of shares of Preferred Stock to be redeemed; (iii) the redemption price per share of Preferred Stock; (iv) the place or places where certificates for the Preferred Stock are to be surrendered for payment of the redemption price; and (v) that dividends on the shares of Preferred Stock to be redeemed will cease to accrue on such redemption date. If fewer than all the shares of Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Preferred Stock to be redeemed from such holder. In order to facilitate the redemption of shares of Preferred Stock, the Board of Directors may fix a record date for the determination of shares of Preferred Stock to be redeemed, such record date to be not less than 30 nor more than 60 days prior to the date fixed for such redemption.

Notice having been given as provided above, from and after the date specified therein as the date of redemption, unless we default in providing funds for the payment of the redemption price on such date, all dividends on the Preferred Stock called for redemption will cease. From and after the redemption date, unless we so default, all rights of the holders of the Preferred Stock as shareholders of the Company, except the right to receive the redemption price (but without interest), will cease. Upon surrender in accordance with such notice of the certificates representing any such shares (properly endorsed or assigned for transfer, if the Company shall so require and the notice shall so state), the redemption price set forth above shall be paid out of the funds provided by the Company. If fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the holder thereof.

Subject to applicable law and the limitation on purchases when dividends on the Preferred Stock are in arrears, we may, at any time and from time to time, purchase any shares of Preferred Stock in the open market, by tender or by private agreement.

Voting Rights

Except as indicated below, or except as expressly required by applicable law, holders of the Preferred Stock will not be entitled to vote.

If the equivalent of six quarterly dividends payable on the Preferred Stock or any other series of preferred stock are in default (whether or not declared or consecutive), holders of the Preferred Stock (voting as a class with all other shares of preferred stock, without regard to series) will be entitled to elect two additional directors until all dividends in default have been paid or declared and set apart for payment.

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Such right to vote separately to elect directors shall, when vested, be subject, always, to the same provisions for vesting of such right to elect directors separately in the case of future dividend defaults. At any time when such right to elect directors separately shall have so vested, we may, and upon the written request of the holders of record of not less than 20% of the total number of shares of preferred stock of the Company then outstanding shall, call a special meeting of shareholders for the election of directors. In the case of such a written request, such special meeting shall be held within 90 days after the delivery of such request and, in either case, at the place and upon the notice provided by law and in our Bylaws, provided that we shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing annual meeting of shareholders, and the holders of all classes of outstanding preferred stock (in the case of dividend defaults) are offered the opportunity to elect such directors (or fill any vacancy) at such annual meeting of shareholders. Directors so elected shall serve until the next annual meeting of our shareholders or until their respective successors are elected and qualify. If, prior to the end of the term of any director so elected, a vacancy in the office of such director shall occur, during the continuance of a default in dividends on shares of preferred stock of the Company by reason of death, resignation, or disability, such vacancy shall be filled for the unexpired term of such former director by the appointment of a new director by the remaining director so elected.

The affirmative vote or consent of the holders of at least $66\frac{2}{3}\%$ of the outstanding shares of the Preferred Stock will be required to amend any provision of the Articles of Incorporation, including the Certificate of Determination, if such action would adversely alter or change the powers, preferences, privileges or rights of the Preferred Stock, except as set forth below. The affirmative vote or consent of the holders of at least $66\frac{2}{3}\%$ of the outstanding shares of the Preferred Stock and any other series of preferred stock ranking on a parity with the Preferred Stock as to dividends and upon liquidation, voting as a single class, will be required to authorize another class or series of shares senior to the Preferred Stock with respect to the payment of dividends or the distribution of assets on liquidation.

No consent or approval of the holders of shares of the Preferred Stock will be required for the issuance from the Company's authorized but unissued preferred stock of other shares of any series of preferred stock ranking on a parity with or junior to the Preferred Stock as to payment of dividends and distribution of assets, including other shares of Preferred Stock.

Depositary Shares

The following is a brief description of the terms of the Depositary Shares which does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Deposit Agreement (including the form of Depositary Receipt contained therein), which is filed as an exhibit to, or incorporated by reference in, the Registration Statement of which this Prospectus Supplement constitutes a part.

Dividends

The Depositary will distribute all cash dividends or other cash distributions received in respect of the Preferred Stock to the record holders of Depositary Receipts in proportion to the number of Depositary Shares owned by such holders on the relevant record date, which will be the same date as the record date fixed by us for the Preferred Stock. In the event that the calculation of such amount to be paid results in an amount which is a fraction of one cent, the amount the Depositary shall distribute to such record holder shall be rounded to the next highest whole cent if such fraction of one cent is equal to or greater than \$.005. Otherwise, the fractional interest shall be disregarded.

In the event of a distribution other than in cash, the Depositary will distribute property received by it to the record holders of Depositary Receipts entitled thereto, in proportion, as nearly as may be practicable, to the number of Depositary Shares owned by such holders on the relevant record date, unless the Depositary determines (after consultation with us) that it is not feasible to make such distribution, in which case the Depositary may (with our approval) adopt any other method for such distribution as it deems equitable and

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appropriate, including the sale of such property (at such place or places and upon such terms as it may deem equitable and appropriate) and distribution of the net proceeds from such sale to such holders.

Liquidation Preference

In the event of the liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of each Depositary Share will be entitled to 1/1000th of the liquidation preference accorded to each share of the Preferred Stock.

Redemption

Whenever we redeem any Preferred Stock held by the Depositary, the Depositary will redeem as of the same redemption date the number of Depositary Shares representing the Preferred Stock so redeemed. The Depositary will publish a notice of redemption of the Depositary Shares containing the same type of information and in the same manner as our notice of redemption and will mail the notice of redemption promptly upon receipt of such notice from us and not less than 30 nor more than 60 days prior to the date fixed for redemption of the Preferred Stock and the Depositary Shares to the record holders of the Depositary Receipts. In case less than all the outstanding Depositary Shares are to be redeemed, the Depositary Shares to be so redeemed shall be determined pro rata or by lot in a manner determined by the Board of Directors.

Voting

Promptly upon receipt of notice of any meeting at which the holders of the Preferred Stock are entitled to vote, the Depositary will mail the information contained in such notice of meeting to the record holders of the Depositary Receipts as of the record date for such meeting. Each such record holder of Depositary Receipts will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the number of shares of Preferred Stock represented by such record holder's Depositary Shares. The Depositary will endeavor, insofar as practicable, to vote such Preferred Stock represented by such Depositary Shares in accordance with such instructions, and we will agree to take all action which may be deemed necessary by the Depositary in order to enable the Depositary to do so. The Depositary will abstain from voting any of the Preferred Stock to the extent that it does not receive specific instructions from the holders of Depositary Receipts.

Withdrawal of Preferred Stock

Upon surrender of Depositary Receipts at the principal office of the Depositary, upon payment of any unpaid amount due the Depositary, and subject to the terms of the Deposit Agreement, the owner of the Depositary Shares evidenced thereby is entitled to delivery of the number of whole shares of Preferred Stock and all money and other property, if any, represented by such Depositary Shares. Partial shares of Preferred Stock will not be issued. If the Depositary Receipts delivered by the holder evidence a number of Depositary Shares in excess of the number of Depositary Shares representing the number of whole shares of Preferred Stock to be withdrawn, the Depositary will deliver to such holder at the same time a new Depositary Receipt evidencing such excess number of Depositary Shares. Holders of Preferred Stock thus withdrawn will not thereafter be entitled to deposit such shares under the Deposit Agreement or to receive Depositary Receipts evidencing Depositary Shares therefor.

Amendment and Termination of Deposit Agreement

The form of Depositary Receipt evidencing the Depositary Shares and any provision of the Deposit Agreement may at any time and from time to time be amended by agreement between us and the Depositary. However, any amendment which materially and adversely alters the rights of the holders (other than any change in fees) of Depositary Shares will not be effective unless such amendment has been approved by the holders of at least a majority of the Depositary Shares then outstanding. No such amendment may impair the right, subject to

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the terms of the Deposit Agreement, of any owner of any Depositary Shares to surrender the Depositary Receipt evidencing such Depositary Shares with instructions to the Depositary to deliver to the holder the Preferred Stock and all money and other property, if any, represented thereby, except in order to comply with mandatory provisions of applicable law. The Deposit Agreement may be terminated by us or the Depositary only if (i) all outstanding Depositary Shares have been redeemed or (ii) there has been a final distribution in respect of the Preferred Stock in connection with any liquidation, dissolution or winding up of the Company and such distribution has been made to all the holders of Depositary Shares.

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the Depositary in connection with the initial deposit of the Preferred Stock and the initial issuance of the Depositary Shares, and redemption of the Preferred Stock and all withdrawals of Preferred Stock by owners of Depositary Shares. Holders of Depositary Receipts will pay transfer and other taxes and governmental charges and certain other charges as are provided in the Deposit Agreement to be for their accounts. In certain circumstances, the Depositary may refuse to transfer Depositary Shares, may withhold dividends and distributions and sell the Depositary Shares evidenced by such Depositary Receipt if such charges are not paid.

Miscellaneous

The Depositary will forward to the holders of Depositary Receipts all reports and communications from us which are delivered to the Depositary and which we are required to furnish to the holders of the Preferred Stock. In addition, the Depositary will make available for inspection by holders of Depositary Receipts at the principal office of the Depositary, and at such other places as it may from time to time deem advisable, any reports and communications received from the Company which are received by the Depositary as the holder of Preferred Stock.

Neither the Depositary nor any Depositary's Agent (as defined in the Deposit Agreement), nor the Registrar (as defined in the Deposit Agreement) nor the Company assumes any obligation or will be subject to any liability under the Deposit Agreement to holders of Depositary Receipts other than for its gross negligence, willful misconduct or bad faith. Neither the Depositary, any Depositary's Agent, the Registrar nor the Company will be liable if it is prevented or delayed by law or, in the case of the Depositary, any Depositary's Agent or the Registrar, any circumstance beyond its control, in performing its obligations under the Deposit Agreement. The Company and the Depositary are not obligated to prosecute or defend any legal proceeding in respect of any Depositary Shares, Depositary Receipts or Preferred Stock unless reasonably satisfactory indemnity is furnished. The Company and the Depositary may rely on written advice of counsel or accountants, on information provided by holders of Depositary Receipts or other persons believed in good faith to be competent to give such information and on documents believed to be genuine and to have been signed or presented by the proper party or parties.

Holders of Depositary Receipts may inspect the Depositary's transfer records for the Depositary Receipts at the Depositary's office during normal business hours, provided that such inspection is for a proper purpose.

Registration of Transfer of Receipts

The Depositary will register on its books transfers of Depositary Receipts upon surrender of the receipt by the holder, properly endorsed or accompanied by appropriate instruments of transfer, subject to certain restrictions and conditions set forth in the Deposit Agreement. Title to

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Depository Shares represented by a Depository Receipt, which is properly endorsed or accompanied by appropriate instruments of transfer, will be transferable by delivery with the same effect as in the case of a negotiable instrument.

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Resignation and Removal of Depositary

The Depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the Depositary, any such resignation or removal to take effect upon the appointment of a successor Depositary and its acceptance of such appointment. Such successor Depositary must be appointed within 60 days after delivery of the notice for resignation or removal and must be a bank or trust company having its principal office in the United States of America and having a combined capital and surplus of at least \$150,000,000.

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ADDITIONAL MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

For a discussion of the taxation of the Company and the tax considerations relevant to shareholders generally, see *Material U.S. Federal Income Tax Considerations* in the accompanying Prospectus. The following is a summary of certain additional federal income tax considerations pertaining to the acquisition, ownership and disposition of the Depositary Shares and should be read in conjunction with the referenced sections in the accompanying Prospectus. This discussion of additional considerations is general in nature and is not exhaustive of all possible tax considerations, nor does the discussion address any state, local or foreign tax considerations. This discussion of additional considerations is based on current law and does not purport to deal with all aspects of federal income taxation that may be relevant to a prospective shareholder in light of its particular circumstances or to certain types of shareholders (including insurance companies, financial institutions, broker-dealers, tax exempt investors, foreign corporations and persons who are not citizens or residents of the United States) subject to special treatment under the federal income tax laws. We have not requested and will not request a ruling from the Internal Revenue Service with respect to any of the federal income tax issues discussed below or in the accompanying Prospectus. Prospective investors should consult, and must depend on, their own tax advisers regarding the federal, state, local, foreign and other tax consequences of holding and disposing of the Depositary Shares.

Taxation of Holders of Depositary Shares

General. Owners of the Depositary Shares will be treated for federal income tax purposes as if they were owners of the Preferred Stock represented by such Depositary Shares. Accordingly, such owners will take into account, for federal income tax purposes, income to which they would be entitled if they were holders of such Preferred Stock. See *Description of the Depositary Shares Federal Income Tax Considerations* in the accompanying Prospectus. Withdrawals of Preferred Stock for Depositary Shares are not taxable events for federal income tax purposes.

Dividends and Other Distributions; Backup Withholding. For a discussion of the taxation of the Company, the treatment of dividends and other distributions with respect to shares of the Company, and the backup withholding rules, see *Material U.S. Federal Income Tax Considerations Taxation of the Company as a REIT, Taxation of U.S. Shareholders and Information Reporting and Backup Withholding Tax Applicable to Shareholders* in the accompanying Prospectus. In determining the extent to which a distribution on the Depositary Shares constitutes a dividend for tax purposes, the earnings and profits of the Company will be allocated first to distributions with respect to the Preferred Stock and all other series of preferred stock that are equal in rank as to distributions and upon liquidation with the Preferred Stock, and second to distributions with respect to Common Stock of the Company.

Sale or Exchange of Depositary Shares. Upon the sale, exchange or other disposition of Depositary Shares to a party other than the Company, a holder of Depositary Shares will realize capital gain or loss measured by the difference between the amount realized on the sale, exchange or other disposition of the Depositary Shares and such shareholder's adjusted tax basis in the Depositary Shares (provided the Depositary Shares are held as a capital asset). For a discussion of capital gain taxation see *Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders* in the accompanying Prospectus.

Redemption of Depositary Shares. Whenever the Company redeems any Preferred Stock held by the Depositary, the Depositary will redeem as of the same redemption date the number of Depositary Shares representing the Preferred Stock so redeemed. The treatment to a holder of Depositary Shares accorded to any redemption by the Company (as distinguished from a sale, exchange or other disposition) of Preferred Stock held by the Depositary and corresponding redemption of Depositary Shares can only be determined on the basis of particular facts as to the holder of Depositary Shares at the time of redemption. In general, a holder of Depositary Shares will recognize capital gain or loss measured by the difference between the amount received upon the redemption and the holder of the Depositary Shares' adjusted tax basis in the Depositary Shares redeemed

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(provided the Depositary Shares are held as a capital asset) if such redemption (i) results in a complete termination of a holder's interest in all classes of stock of the Company under Section 302(b)(3) of the Internal Revenue Code of 1986, as amended (the Code) or (ii) is not essentially equivalent to a dividend with respect to the holder under Section 302(b)(1) of the Code. In applying these tests, there must be taken into account not only any Depositary Shares owned by the holder, but also such holder's ownership of Common Stock, equity stock, other series of preferred stock and any options (including stock purchase rights) to acquire any of the foregoing. The holder also must take into account any such securities (including options) which are considered to be owned by such holder by reason of the constructive ownership rules set forth in Sections 318 and 302(c) of the Code.

If a particular holder of Depositary Shares owns (actually or constructively) no shares of Common Stock, equity stock or other series of preferred stock of the Company or an insubstantial percentage of the outstanding shares of Common Stock, equity stock or preferred stock of the Company, based upon current law, it is probable that the redemption of Depositary Shares from such a holder would be considered not essentially equivalent to a dividend. However, whether a distribution is not essentially equivalent to a dividend depends on all of the facts and circumstances, and a holder of Depositary Shares intending to rely on any of these tests at the time of redemption should consult its tax advisor to determine their application to its particular situation.

If the redemption does not meet any of the tests under Section 302 of the Code, then the redemption proceeds received from the Depositary Shares will be treated as a distribution on the Depositary Shares as described under Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders in the accompanying Prospectus. If the redemption is taxed as a dividend, the holder of Depositary Shares adjusted tax basis in the redeemed Depositary Shares will be transferred to any other stockholdings of the holder of Depositary Shares in the Company. If the holder of Depositary Shares owns no other stockholdings in the Company, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

Changes Effectuated By Legislation

The American Jobs Creation Act of 2004 (the Jobs Act) was enacted into law in late 2004. The Gulf Opportunity Zone Act of 2005 (the Gulf Act) was enacted into law in late 2005. The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), and together with the Jobs Act and the Gulf Act, the Acts) was signed into law on May 17, 2006. The Acts include the following changes, among other things, that are relevant to us as a REIT:

As discussed in the accompanying Prospectus under Material U.S. Federal Income Tax Considerations Taxation of the Company as a REIT Asset Tests Applicable to REITs, beginning on page 30, we may not own more than 10% by vote or value of any one issuer's securities, and the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets. If we fail to meet any of these tests at the end of any quarter and such failure is not cured within 30 days thereafter, we would fail to qualify as a REIT. After the 30-day cure period, a REIT may dispose of sufficient assets or otherwise cure such a violation if the violation does not exceed the lesser of 1% of the REIT's assets at the end of the relevant quarter or \$10,000,000, provided that the disposition occurs within six months following the last day of the quarter in which the REIT first identified the violation. For violations due to reasonable cause that are larger than this amount and violations of the other asset test requirements, a REIT can avoid disqualification as a REIT after the 30 day cure period by taking certain steps, including the disposition of sufficient assets within the six-month period described above to meet the applicable asset test and filing a schedule with the IRS that describes the non-qualifying assets. The REIT will also be required to pay a tax equal to the greater of \$50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying assets during the period of time that the assets were held as non-qualifying assets.

The Acts expand the straight debt safe harbor described in the accompanying Prospectus under Material U.S. Federal Income Tax Considerations Taxation of the Company as a REIT Asset Tests

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Applicable to REITs, beginning on page 30, and clarify that the following types of debt will not be taken into account as securities for purposes of the 10% value limitation discussed above: (1) securities that meet the straight debt safe harbor; (2) loans to individuals or estates; (3) obligations to pay rents from real property; (4) rental agreements described in Section 467 of the Code (other than such agreements with related parties); (5) securities issued by other REITs; (6) debt issued by partnerships that derive at least 75% of their gross income from sources that constitute qualifying income for purposes of the 75% gross income test; (7) any debt not otherwise described in this paragraph that is issued by a partnership, but only to the extent of our interest as a partner in the partnership; (8) certain securities issued by a state, the District of Columbia, a foreign government, or a political subdivision of any of the foregoing, or the Commonwealth of Puerto Rico; and (9) any other arrangement described in future Treasury regulations.

The formula for calculating the tax imposed for certain violations of the 75% and 95% gross income tests described in the accompanying Prospectus under Material U.S. Federal Income Tax Considerations Taxation of the Company as a REIT Income Tests Applicable to REITs, beginning on page 28 has been changed. Specifically, the tax imposed will equal the gross income attributable to the greater of either (1) the amount by which 75% of our gross income exceeds the amount of our income qualifying under the 75% test for the taxable year or (2) the amount by which 95% (formerly 90%) of our gross income exceeds the amount of our income qualifying for the 95% income test for the taxable year, multiplied by a fraction intended to reflect our profitability. The Acts also make certain changes to the requirements for availability of the applicable relief provisions for failure to meet such tests.

The Acts clarify a rule regarding our ability to enter into leases with a taxable REIT subsidiary.

As discussed in the accompanying Prospectus under Material U.S. Federal Income Tax Considerations U.S. Taxation of Non-U.S. Shareholders Distributions by the Company, beginning on page 36, we are required to withhold 35% of any distribution to non-U.S. shareholders (the term non-U.S. shareholders in this paragraph means a nonresident alien individual or a foreign corporation) that is designated as a capital gain dividend or, if greater, 35% of a distribution to non-U.S. shareholders that could have been designated as a capital gain dividend. The Acts eliminate this 35% withholding tax on any capital gain dividend with respect to any class of stock that is regularly traded on an established securities market located in the United States if the non-U.S. shareholder did not own more than 5% of such class of stock at any time during the 1-year period ending on the date of distribution (the 5% Exception). Instead, any capital gain dividend will be treated as a distribution subject to the general rules discussed in Material U.S. Federal Income Tax Considerations U.S. Taxation of Non-U.S. Shareholders Distributions by the Company.

Further, it is not entirely clear whether distributions that are (i) otherwise treated as capital gain dividends, (ii) not attributable to the disposition of a U.S. real property interest, and (iii) paid to non-U.S. shareholders who meet the 5% Exception will be treated as (a) long-term capital gain to such non-U.S. shareholders or as (b) ordinary dividends taxable in the manner described above. If we were to pay a capital gain dividend, non-U.S. shareholders should consult their tax advisors regarding the taxation of such distribution in their particular circumstances.

There is additional relief in the event that we violate certain provisions of the Code that would result in our failure to qualify as a REIT if (i) the violation is due to reasonable cause and not due to willful neglect and (ii) we pay a penalty of \$50,000 for each failure to satisfy the provision.

As discussed in the accompanying Prospectus under Material U.S. Federal Income Tax Considerations Taxation of the Company as a REIT Income Tests Applicable to REITs, beginning on page 28, prior to January 1, 2005, any periodic income or gain from the disposition of a hedging instrument including interest rate swaps or cap agreements, options, futures contracts, or any similar financial instruments entered into to hedge any indebtedness incurred to acquire or carry real estate assets was generally qualifying income for the 95% gross income test, but not for the 75% gross income

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test. The Acts clarify that any income from a hedging transaction entered into on or after January 1, 2005 that is clearly and timely identified, including gain from the sale or disposition of such a financial instrument, will be disregarded for purposes of the 95% gross income test to the extent the financial instrument hedges indebtedness incurred or to be incurred to acquire or carry real estate assets.

TIPRA extends certain reduced tax rate provisions. As discussed in the accompanying Prospectus under Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders Sunset of Reduced Tax Rate Provisions, the provisions of the federal income tax laws relating to the 15% rate of capital gain taxation and the applicability of capital gain rates for designated qualified dividend income of REITs were scheduled to sunset or revert back to provisions of prior law effective for taxable years beginning after December 31, 2008. As a result of TIPRA, these provisions will sunset effective for taxable years beginning after December 31, 2010.

The foregoing is a non-exhaustive list of changes applicable to REITs that are contained in the Acts.

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UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, Wachovia Capital Markets, LLC, the underwriter, has agreed to purchase from us, and we have agreed to sell to the underwriter, 800,000 Depositary Shares.

The underwriting agreement provides that the obligations of the underwriter to purchase the Depositary Shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriter is obligated to purchase all of the Depositary Shares if it purchases any of the Depositary Shares.

The underwriter proposes to offer some of the Depositary Shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Depositary Shares to dealers at the public offering price less a concession not to exceed \$0.50 per Depositary Share for retail orders and \$0.30 per Depositary Share for institutional orders. The underwriter may allow, and dealers may reallow, a concession not to exceed \$0.45 per Depositary Share on sales to other dealers. If all of the Depositary Shares are not sold at the initial offering price, the underwriter may change the public offering price and the other selling terms.

The outstanding Depositary Shares are listed on the American Stock Exchange, or AMEX, under the symbol PSBPrO. We will apply to have the Depositary Shares offered hereby listed on the AMEX. If this application is approved, trading of the Depositary Shares offered hereby on the AMEX is expected to begin within 30 days following initial delivery of such Depositary Shares.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriter in connection with this offering.

Per Depositary Share (Retail Orders)	\$ 0.7875
Per Depositary Share (Institutional Orders)	\$ 0.5000
Total (assumes all Institutional Orders)	\$ 400,000.00

Until the distribution of the Depositary Shares offered hereby is completed, rules of the SEC may limit the ability of the underwriter to bid for and purchase Depositary Shares. However, the underwriter may engage in transactions that stabilize the price of the Depositary Shares, such as bids or purchases to peg, fix or maintain that price.

If the underwriter creates a short position in the Depositary Shares in connection with this offering (i.e., if the underwriter sells more Depositary Shares than are set forth on the cover page of this prospectus supplement), the underwriter may reduce that short position by purchasing shares in the open market. Purchases of Depositary Shares to stabilize the price or to reduce a short position may cause the price of the Depositary Shares to be higher than it might be in the absence of such purchases.

Neither we nor the underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above might have on the price of the Depositary Shares. In addition, neither we nor the underwriter makes any representation that the underwriter will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

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We estimate that our portion of the total expenses of this offering will be \$30,000 before reimbursement. The underwriter has agreed to reimburse \$30,000 of our costs.

The underwriter has performed investment banking and advisory services for us from time to time for which it has received customary fees and expenses. The underwriter may, from time to time, engage in transactions with and perform services for us in the ordinary course of its business.

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We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriter may be required to make because of any of those liabilities.

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LEGAL MATTERS

The validity of the Preferred Stock and the Depositary Shares offered hereby will be passed upon for us by Stephanie Heim, Esq., counsel for PS Business Parks, and for the underwriter by Wilmer Cutler Pickering Hale and Dorr LLP. Hogan & Hartson L.L.P. has delivered an opinion as to our status as a REIT. Wilmer Cutler Pickering Hale and Dorr LLP has from time to time represented PS Business Parks on other matters. Wilmer Cutler Pickering Hale and Dorr LLP will rely upon Ms. Heim with respect to matters governed by California law.

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PS Business Parks, Inc.

\$600,000,000

By this prospectus, we may offer

Common Stock

Preferred Stock

Equity Stock

Depositary Shares

Warrants

We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and the supplements carefully before you invest.

Corporate Headquarters:

701 Western Avenue

Glendale, CA 91201-2397

(818) 244-8080

Our common stock is traded on the American Stock Exchange under the symbol PSB.

Investing in our securities involves risks. Please read Risk Factors beginning on page 1 for a discussion of material risks you should consider before you invest.

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Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of the securities to be issued under this prospectus or determined if this prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

March 5, 2004

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You should rely only on the information contained in or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.

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