

PS BUSINESS PARKS INC/CA
Form DEF 14A
March 27, 2015
Table of Contents

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(AMENDMENT NO. __)

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☒ Definitive Proxy Statement

☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to §240.14a-12

PS BUSINESS PARKS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ Fee not required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

Table of Contents

Edgar Filing: PS BUSINESS PARKS INC/CA - Form DEF 14A

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:
- .. Fee paid previously with preliminary materials.
- .. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

March 27, 2015

Dear PS Business Parks, Inc. Shareholder:

On behalf of the Board of Directors of PS Business Parks, Inc., I am pleased to invite you to our 2015 Annual Meeting of Shareholders on Tuesday, April 28, 2015, at 10:00 a.m., Pacific Daylight Time, at the Westin Pasadena, 191 N. Los Robles Avenue, Pasadena, California.

We have included the official notice of meeting, proxy statement and form of proxy with this letter. The proxy statement describes in detail the matters listed in the notice of meeting.

Your vote is important. Whether or not you plan to attend the annual meeting, we hope you will vote as soon as possible. You may vote your shares over the Internet, by telephone or, if you elect to receive printed proxy materials, by mail by following the instructions on the proxy card or the voting instruction card. Of course, even if you vote your shares ahead of time, you may still attend the meeting.

We appreciate your investment in PS Business Parks and look forward to seeing you at our 2015 Annual Meeting.

Sincerely,

Joseph D. Russell, Jr.
President and Chief Executive Officer

Table of Contents

701 Western Avenue

Glendale, California 91201-2349

NOTICE OF THE 2015 ANNUAL MEETING OF SHAREHOLDERS

The 2015 Annual Meeting of Shareholders of PS Business Parks, Inc., a California corporation, will be held at the Westin Pasadena, 191 North Los Robles, Pasadena, California 91101, on Tuesday, April 28, 2015, 10:00 a.m., Pacific Daylight Time, to consider and act on the following matters.

1. To elect nine directors from the nominees named in the attached proxy statement to serve until the 2016 Annual Meeting of Shareholders;
2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm for PS Business Parks, Inc. for the fiscal year ending December 31, 2015;
3. To approve an amendment to the Retirement Plan for Non-Employee Directors;
4. To hold an advisory vote to approve executive compensation; and
5. To consider and act upon any other matters as may properly come before the meeting or any adjournment or postponement thereof. The shareholders of record of PS Business Parks, Inc. common stock at the close of business on March 6, 2015 will be entitled to vote at the meeting or any postponement or adjournments thereof.

Whether or not you expect to attend, we urge you to sign, date and promptly return the enclosed proxy card in the enclosed postage prepaid envelope or vote via telephone or the Internet in accordance with the instructions on the enclosed proxy card. If you attend the meeting, you may vote your shares in person, which will revoke any prior vote.

Important Notice Regarding Availability of Proxy Materials for the 2015 Annual Meeting: This proxy statement and our 2014 Annual Report are available at the Investor Relations section of our website (www.psbusinessparks.com).

By order of the Board of Directors,

Edward A. Stokx

Executive Vice President, Chief Financial Officer and Secretary

Glendale, California

March 27, 2015

Table of Contents

TABLE OF CONTENTS

<u>GENERAL INFORMATION</u>	1
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	5
<u>About the Director Nominees</u>	5
<u>CORPORATE GOVERNANCE AND BOARD MATTERS</u>	8
<u>Corporate Governance Policies, Code of Ethics and Business Conduct Standards</u>	8
<u>Board Leadership</u>	8
<u>Board Responsibilities and Oversight of Risk Management</u>	9
<u>Board Meetings</u>	9
<u>Board Orientation and Education</u>	10
<u>Director Stock Ownership Policy</u>	10
<u>Board Retirement Policy</u>	10
<u>Committees of the Board of Directors</u>	10
<u>Audit Committee</u>	10
<u>Compensation Committee</u>	11
<u>Nominating/Corporate Governance Committee</u>	11
<u>Director Independence</u>	12
<u>Compensation of Directors</u>	12
<u>Compensation Committee Interlocks and Insider Participation</u>	14
<u>Consideration of Candidates for Director</u>	14
<u>Communications with the Board of Directors</u>	15
<u>STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	16
<u>Security Ownership of Certain Beneficial Owners</u>	16
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	20
<u>PROPOSAL 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS</u>	22
<u>Audit and Non-Audit Fees</u>	22
<u>Audit Committee Report</u>	23
<u>EXECUTIVE OFFICERS</u>	25
<u>COMPENSATION AND OTHER INFORMATION CONCERNING EXECUTIVE OFFICERS</u>	26
<u>Compensation Discussion and Analysis</u>	26
<u>2014 Executive Compensation Highlights</u>	26
<u>2015 Compensation Outlook</u>	27
<u>PS Business Parks Executive Officer Stock Retention Requirement</u>	27
<u>Executive Compensation Philosophy and Objectives</u>	27
<u>Elements of Compensation</u>	28
<u>2014 Compensation</u>	29
<u>REPORT OF THE COMPENSATION COMMITTEE</u>	32
<u>Compensation of Executive Officers</u>	33
<u>SUMMARY COMPENSATION TABLE</u>	33
<u>GRANTS OF PLAN-BASED AWARDS</u>	34
<u>OPTION EXERCISES AND STOCK VESTED IN 2014</u>	34

Table of Contents

<u>OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END</u>	35
<u>PENSION/NON-QUALIFIED DEFERRED COMPENSATION PLANS</u>	35
<u>POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL</u>	35
<u>Payments Upon Termination</u>	35
<u>Payments Upon Death or Disability</u>	35
<u>Payments Upon a Change of Control</u>	36
<u>EQUITY COMPENSATION PLAN INFORMATION AS OF DECEMBER 31, 2014</u>	37
<u>PROPOSAL 3 APPROVAL OF THE AMENDMENT TO THE RETIREMENT PLAN FOR NON-EMPLOYEE DIRECTORS</u>	38
<u>Summary of the Material Terms of the Retirement Plan</u>	38
<u>Summary of U.S. Federal Income Tax Consequences</u>	39
<u>New Plan Benefits Table</u>	40
<u>Registration with the SEC</u>	40
<u>PROPOSAL 4 ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION</u>	41
<u>ADDITIONAL INFORMATION</u>	43
<u>Deadlines for receipt of shareholder proposals for consideration at the 2016 annual meeting</u>	43
<u>ANNUAL REPORT ON FORM 10-K</u>	44
<u>APPENDIX A PS BUSINESS PARKS, INC. RETIREMENT PLAN FOR NON-EMPLOYEE DIRECTORS, as amended</u>	A-1

Table of Contents

PROXY STATEMENT

2015 ANNUAL MEETING OF SHAREHOLDERS

GENERAL INFORMATION

Questions and Answers

Q. Why did I receive these proxy materials?

- A. We are providing these proxy materials on behalf of the Board of Directors (the Board) of PS Business Parks, Inc., a California corporation (the Company or PS Business Parks) to ask for your vote and to solicit your proxies for use at our 2015 Annual Meeting of Shareholders (the Annual Meeting) to be held on April 28, 2015, or any adjournments or postponements thereof. We have made these materials available to you on the Internet or, upon your request, delivered printed versions of these materials to you by mail, because you were a shareholder as of March 6, 2015, the record date (the record date) fixed by the Board, and are therefore entitled to receive notice of the Annual Meeting (the Notice) and to vote on matters presented at the Annual Meeting.

This proxy statement contains important information regarding our annual meeting. Specifically, it identifies the proposals on which you are being asked to vote, provides information that you may find useful in determining how to vote and describes voting procedures. This Notice and proxy statement are first being distributed and made available on or about March 27, 2015 to holders of our common stock on the record date. A copy of our Annual Report to Shareholders (the Annual Report) for the fiscal year ended December 31, 2014, which includes a copy of our 2014 Annual Report on Form 10-K, accompanies this proxy statement.

We use several abbreviations in this proxy statement. We refer to PS Business Parks, Inc. as PS Business Parks, we, us, our or the Company, unless the context indicates otherwise. We refer to our Board of Directors as the Board.

Q. When and where is the Annual Meeting being held?

- A. The Annual Meeting will be held on Tuesday, April 28, 2015 at 10:00 a.m., Pacific Daylight Time, at the Westin Pasadena, 191 North Los Robles, Pasadena, California 91101.

Q. Who is entitled to vote at the Annual Meeting?

- A. If you are a holder of PS Business Parks common stock (Common Stock) at the close of business on the record date, you may vote the shares of Common Stock that you hold on that date at the Annual Meeting. For all matters submitted for vote at the Annual Meeting, each share of Common Stock is entitled to one vote.

Q. What constitutes a quorum for the Annual Meeting?

- A. If a majority of the shares of Common Stock outstanding on the record date are present in person or represented by proxy at the Annual Meeting, we will have a quorum, permitting the conduction of business at the Annual Meeting. As of the record date, we had 26,920,412 shares of Common Stock outstanding and entitled to vote.

Table of Contents

We will count abstentions and shares held by brokers or nominees who have not received instructions from the beneficial owner (broker non-votes) as present for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting.

Q. What items will be voted on at the Annual Meeting and what is the required vote?

A. As a shareholder, you are entitled to vote on the following proposals:

Proposal 1 To elect the nine nominees to the Board as named in this proxy statement (see page 5);

Proposal 2 To ratify the appointment of Ernst & Young LLP (Ernst & Young) as our independent registered public accounting firm for 2015 (see page 22);

Proposal 3 To approve an amendment to the Company's Retirement Plan for Non-Employee Directors (the Retirement Plan) to increase to 200,000 the Common Stock reserved for issuance (see page 38);

Proposal 4 To approve, in an advisory vote, executive compensation (see page 41); and

To consider any other appropriate matters properly brought before the meeting or any adjournment or postponement of the meeting. For Proposal 1, director nominees receiving an affirmative majority of votes cast (i.e., the number of shares cast for a director nominee must exceed the number of votes cast against that nominee) will be elected. Similarly, Proposals 2, 3 and 4 each require an affirmative majority of the votes cast (i.e., the number of shares cast for the proposal must exceed the number of votes cast against that proposal). We will not count shares that abstain from voting on a particular matter.

Although the advisory vote on executive compensation is non-binding, the Compensation Committee of the Board (the Compensation Committee) will consider and take into account the vote results in making future executive compensation determinations.

Q. How will proxies be voted at the Annual Meeting?

A. If you hold shares through a broker or nominee and do not provide the broker or nominee with specific voting instructions, under the rules that govern brokers or nominees in such circumstances, your broker or nominee will have the discretion to vote such shares on routine matters, but not on non-routine matters. As a result:

Your broker or nominee will not have the authority to exercise discretion to vote such shares with respect to Proposals 1, 3 and 4 because the New York Stock Exchange (the NYSE) rules treat these matters as non-routine; and

Your broker or nominee will have the authority to exercise discretion to vote such shares with respect to Proposal 2 because that matter is treated as routine under the NYSE rules

Broker non-votes will be counted as present for purposes of determining the presence or absence of a quorum but will otherwise have no effect on the outcome of the vote on Proposals 1, 3 and 4.

Edgar Filing: PS BUSINESS PARKS INC/CA - Form DEF 14A

If you are a registered shareholder and no instructions are indicated on a properly executed proxy card submitted by you, the shares represented by the proxy will be voted **FOR** each of Proposals 1, 2, 3 and 4 and in accordance with the judgment of the proxy holders as to any other matter that may be properly brought before the Annual Meeting, or any adjournments or postponements thereof.

Q. How do I cast a vote?

A. You may vote by any of the following means:

Table of Contents

By Internet: Shareholders who received a Notice about the Internet availability of our proxy materials may submit proxies over the Internet by following the instructions on the Notice. Shareholders who have received a paper copy of a proxy card or voting instruction card by mail may submit proxies over the Internet by following the instructions on the proxy card or voting instruction card.

By Telephone: If provided on your proxy card or voting instruction card and if you live in the United States or Canada, you may submit proxies by telephone by calling the telephone number indicated on the card and following the instructions. You will need to have the control number that appears on the card available when voting.

By Mail: Shareholders who have received a paper copy of a proxy card or voting instruction card by mail may submit proxies by completing, signing and dating their proxy card or voting instruction card and mailing it in the accompanying self-addressed envelope. No postage is necessary if mailed in the United States.

In person, at the Annual Meeting: Shareholders who hold shares in their name as the shareholder of record may vote in person at the Annual Meeting. Shareholders who are beneficial owners but not shareholders of record may vote in person at the Annual Meeting only with a legal proxy obtained from their broker, trustee or nominee, as applicable.

Properly completed and submitted proxy cards and voting instruction cards, and proxies properly completed and submitted over the Internet, if received in time for voting and not revoked, will be voted at the Annual Meeting in accordance with the instructions contained therein.

Q. How do I vote if I am a participant in the PS Business Parks 401(k)/Profit Sharing Plan?

- A. If you hold your shares as a participant in the PS Business Parks 401(k)/Profit Sharing Plan (the 401(k) Plan), your proxy will serve as a voting instruction for the trustee of the 401(k) Plan with respect to the amount of shares of Common Stock credited to your account as of the record date. If you provide voting instructions via your proxy card or voting instruction card with respect to your shares of Common Stock held in the 401(k) Plan, the trustee will vote those shares of Common Stock in the manner specified. The trustee will vote any shares of Common Stock for which it does not receive instructions in the same proportion as the shares of Common Stock for which voting instructions have been received, unless the trustee is required by law to exercise its discretion in voting such shares.

To allow sufficient time for the trustee to vote your shares of Common Stock, the trustee must receive your voting instructions by 7:00 a.m., Pacific Daylight Time, on April 24, 2015.

Q. Can I change my mind after I vote?

- A. Yes. You can change your vote at any time before your proxy is voted at the Annual Meeting. To revoke your proxy, you must either:

file an instrument of revocation with our Corporate Secretary at our principal executive offices, 701 Western Avenue, Glendale, California 91201;

mail a new proxy card dated after the date of the proxy you wish to revoke to our Corporate Secretary at our principal executive offices;

submit a later dated proxy over the Internet in accordance with the instructions set forth on the Internet voting website; or

if you are a shareholder of record, or you obtain a legal proxy from your broker, trustee or nominee, as applicable, attend the Annual Meeting and vote in person.

Table of Contents

If not revoked, we will vote the proxy at the Annual Meeting in accordance with your instructions indicated on the proxy card, voting instruction card or, if submitted over the Internet, as indicated on the submission.

Q. Who bears the cost of this proxy solicitation?

A. We bear all proxy solicitation costs. In addition to solicitations by mail, our Board, our officers and our regular employees, without additional remuneration, may solicit proxies by telephone, facsimile, electronic transmission and personal interviews. We will request brokers, banks, custodians and other fiduciaries to forward proxy soliciting materials to the beneficial owners of Common Stock. We will reimburse them for their reasonable out-of-pocket expenses incurred in connection with distributing proxy materials. Alliance Advisors LLC may be retained as our proxy distribution agent, for which they would receive an estimated fee of \$1,000 together with normal and customary expenses.

Q. How can I contact PS Business Parks Transfer Agent?

A. Please contact PS Business Parks transfer agent at the phone number or address listed below with questions concerning share certificates, dividend checks, transfer of ownership or other matters pertaining to your share account: American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219, 800-937-5449.

Q. What do I need to do now?

A. You should carefully read and consider the information contained in this proxy statement. It contains important information about PS Business Parks that you should consider prior to casting your vote.

Table of Contents

PROPOSAL 1

ELECTION OF DIRECTORS

In evaluating potential candidates for service on the Board, the Nominating/Corporate Governance Committee of our Board (the Nominating/Corporate Governance Committee) and the Board have and exercise broad discretion to select director candidates who will best serve the Board and PS Business Parks in the current and anticipated business environment. The goal in the vetting and nomination process is to achieve an appropriate balance of knowledge, experience and capability on the Board. The Board, through the Nominating/Corporate Governance Committee, considers the following experience, qualifications, attributes and skills of both potential trustee nominees and existing members of the Board:

Senior leadership experience
Accounting/financial expertise
Public company board experience
Industry experience
Operational management

Capital markets/banking
Government
Legal and regulatory compliance
Diversity (gender, race, nationality and other attributes)

Our director nominees have qualifications, skills and experience relevant to our business. Each director has experience, mainly at senior executive levels, in other organizations, and a majority of the directors hold or have held directorships at other U.S. public companies. In these positions, our directors have served as chief executive officers, demonstrated leadership, intellectual and analytical skills and gained deep experience in management and corporate governance.

About the Director Nominees

Our Board consists of nine directors, seven of whom are independent. Each nominee is presently a director of PS Business Parks and was previously elected by our shareholders. The Nominating/Corporate Governance Committee recommended and the Board has nominated each of our incumbent directors for re-election to the Board for the one-year term beginning with our 2015 Annual Meeting, or until their successors, if any, are elected or appointed. We believe that each nominee for election as a director will be able to serve if elected.

Nominee

Principal Occupation and Business Experience During the Past Five Years

Ronald L. Havner, Jr.

Mr. Havner has been Chairman of the Board since March 1998 and has been Chairman and Chief Executive Officer of Public Storage, our largest shareholder (Public Storage), since August 2011 and November 2002, respectively. Mr. Havner also serves as a director of AvalonBay Communities, Inc. and California Resources Corp. Mr. Havner was the 2014 Chairman of the Board of Governors of the National Association of Real Estate Investment Trusts, Inc. (NAREIT).

Age 57

His qualifications for election to the PS Business Parks Board include his extensive leadership experience and Company and industry knowledge as the Company's previous Chief Executive Officer.

Table of Contents

Joseph D. Russell, Jr.

Age 55

Mr. Russell has been President and Chief Executive Officer and director of PS Business Parks since August 2003. Before joining PS Business Parks, Mr. Russell had been employed by Spieker Properties, an owner and operator of office and industrial properties in northern California (Spieker), and its predecessor for more than ten years, becoming an officer of Spieker when it became a publicly held REIT in 1993. He is a member of the Board of Governors of NAREIT.

Mr. Russell's qualifications for election to the PS Business Parks Board include his leadership experience and Company and industry knowledge, including his more than 20 years involvement with publicly held REITs and extensive experience with office and industrial real estate.

Jennifer Holden Dunbar

Age 52

Ms. Dunbar has been a director of PS Business Parks since February 2009. Ms. Dunbar has served as Co-Founder and Managing Director of Dunbar Partners, LLC, an investment and advisory services firm since March 2005. Ms. Dunbar is also a director of Big 5 Sporting Goods Corporation. Ms. Dunbar was recently nominated to serve on the Board of Trustees of PIMCO Funds and two related PIMCO trusts commencing April 2015.

Ms. Dunbar's qualifications for election to the PS Business Parks Board include her financial expertise and her experience in private equity and experience with investments and mergers and acquisitions. She also has valuable and extensive experience as a member of several public company boards.

James H. Kropp

Age 66

Mr. Kropp has been a director of PS Business Parks since March 1998. Mr. Kropp has served as Chief Investment Officer at SLKW Investments LLC since 2009 and as Chief Financial Officer of Microproperties LLC, an owner and asset manager of net leased restaurant properties, since August 2012. Mr. Kropp served as interim Chief Financial Officer of TaxEase LLC from 2009 to February 2013. Mr. Kropp is also a director of Corporate Capital Trust, Inc., a registered investment company, and American Homes 4 Rent LLC, a leader in the home rental market.

Mr. Kropp's qualifications for election to the PS Business Parks Board include his knowledge of investment banking and capital markets, specializing in real estate securities, and his extensive experience with real estate businesses, including other REITs. He also has experience as a member of several public company boards.

Sara Grootwassink Lewis

Age 47

Ms. Lewis has served as a director of PS Business Parks since February 2010. She is Chief Executive Officer of Lewis Corporate Advisors, LLC, a capital markets advisory firm. Ms. Lewis previously served as Executive Vice President and Chief Financial Officer of Washington Real Estate Investment Trust, which owns and operates a diversified group of properties in the Washington, D.C. area, from May 2002 through February 2009. Ms. Lewis is a director of Plum Creek Timber Company, Inc., Adamas Pharmaceuticals, Inc., and Sun Life Financial, and she served on the Board of CapitalSource, Inc. until its acquisition in 2014. Ms. Lewis was recently appointed to the Public Company Accounting Oversight Board (PCAOB) Standing Advisory Group for a three-year term.

Ms. Lewis' qualifications for election to the PS Business Parks Board include her previous executive and financial experience at two other publicly traded REITs and her background as a Chartered Financial Analyst and Certified Public Accountant. She brings her extensive financial and real estate industry

Table of Contents

knowledge to the Board as well as her public company board experience.

Michael V. McGee

Age 59

Mr. McGee has served as a director of PS Business Parks since August 2006. Mr. McGee was President and Chief Executive Officer of Pardee Homes (Pardee) from 2000 until his retirement in late 2013. Pardee was the largest wholly-owned subsidiary of Weyerhaeuser Real Estate Company, one of the 20 largest homebuilders in the U.S. and a subsidiary of Weyerhaeuser Company until its sale in 2014.

Mr. McGee's qualifications for election to the PS Business Parks Board include his leadership and financial experience as the former President and Chief Executive Officer of Pardee. He also brings his extensive knowledge of the real estate industry and markets and legal training to the Board.

Gary E. Pruitt

Age 65

Mr. Pruitt has served as a director of PS Business Parks since February 2012. He served as Chairman and Chief Executive Officer of Univar N.V. (Univar) from 2002 until his retirement as Chief Executive Officer in 2010 and as Chairman in 2011. Univar is a chemical distribution company based in Bellevue, Washington, with distribution centers in the United States, Canada and Europe. Mr. Pruitt is also a trustee of Public Storage and a director of Itron, Inc. and Esterline Technologies Corp.

Mr. Pruitt's qualifications for election to the PS Business Parks Board include his leadership and financial experience as chairman and chief executive officer at Univar and his membership on the Board of Trustees of Public Storage.

Robert S. Rollo

Age 67

Mr. Rollo has served as a director of PS Business Parks since October 2013. He most recently served as a Senior Partner at Heidrick and Struggles (Heidrick) in Los Angeles from 2006 until his retirement in 2012. Heidrick is a leading international leadership advisory and executive search firm. Mr. Rollo is a past trustee of the University of Southern California and is Chairman Emeritus of the Southern California Chapter of the National Association of Corporate Directors.

Mr. Rollo's qualifications for election to the PS Business Parks Board include his extensive knowledge of and expertise in executive recruitment, compensation and development and talent management, along with his experience in corporate governance.

Peter Schultz

Age 67

Mr. Schultz has served as a director of PS Business Parks since February 2012. He served as President, Chief Executive Officer and a director of The Beacon Group, Inc. (Beacon) and its affiliates for more than 25 years until his retirement in 2010. Beacon, based in Southern California, and its affiliates, is engaged in the development and management of more than three million square feet of retail, industrial, hospitality and residential projects.

Mr. Schultz's qualifications for election to the PS Business Parks Board include his leadership and extensive real estate experience as President, Chief Executive Officer and director of Beacon and its affiliates.

YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR

THE ELECTION TO THE BOARD OF DIRECTORS OF EACH NOMINEE NAMED ABOVE.

Table of Contents

CORPORATE GOVERNANCE AND BOARD MATTERS

Corporate Governance Policies, Code of Ethics and Business Conduct Standards

The Board has adopted the following corporate governance documents, which establish the framework for our corporate governance and outline the general practice of our Board with respect to board structure, function and conduct, and board and committee organization. The Corporate Governance Guidelines (as defined below) are reviewed at least annually by the Nominating/Corporate Governance Committee, which makes recommendations for any changes to the Board.

PS Business Parks Corporate Governance Guidelines and Director Code of Ethics (the Corporate Governance Guidelines)

Charter

Bylaws

Charters of our standing committees of the Board (the Committee Charters)

Business Conduct Standards applicable to our officers and employees (the BCS)

Code of Ethics for our senior financial officers (the Code of Ethics)

You can access our current Corporate Governance Guidelines, BCS, Code of Ethics and Committee Charters in the Investor Relations section of our website, www.psbusinessparks.com, or by writing to the Company's Investor Services Department, 701 Western Avenue, Glendale, California 91201-2349.

We will disclose any amendments or waivers to the Code of Ethics on our website or in accordance with the Securities and Exchange Commission (the SEC) and NYSE requirements.

Board Leadership

We have separate individuals serving as Chairman of the Board and as Chief Executive Officer. Ronald L. Havner, Jr., has served as Chairman of the Board since March 1998. He is also Chairman and Chief Executive Officer of Public Storage. Mr. Havner has been involved with the Company since its founding and has extensive knowledge of the Company, the markets in which it operates and the real estate industry. Joseph D. Russell, Jr., has been our President and Chief Executive Officer since August 2003 and is also a member of our Board. Mr. Russell is the only management director on our Board and he brings in-depth knowledge of the issues, opportunities and risks facing the Company, our business and our industry and is most familiar with day-to-day operations, management and profitable growth of PS Business Parks.

We do not have a policy against one individual holding the position of Chairman and Chief Executive Officer. Rather, the Board evaluates the desirability of having a combined or separate Chairman and Chief Executive Officer from time-to-time and adopts a structure based on what it believes is in the best interests of PS Business Parks and its shareholders. Currently, the Board believes that having a separate Chairman and Chief Executive Officer is serving the interests of the Company and its shareholders well.

Table of Contents

In addition, the Board has established a position of independent presiding director, to provide an independent director with a leadership role on the Board. The independent presiding director presides at meetings of all non-management directors in executive session without the presence of management. These meetings are held on a regular basis in connection with each regularly scheduled board meeting and at the request of any non-management director. In addition, the independent directors meet separately at least once annually. These sessions are designed to encourage open board discussion of any matter of interest without the Chief Executive Officer or any other members of management present. The position of independent presiding director generally rotates annually among the chairs of the standing committees of the Board. Sara Grootwassink Lewis, Chair of the Audit Committee, is the independent presiding director for meetings of the non-management directors for 2015.

Board Responsibilities and Oversight of Risk Management

The Board is responsible for overseeing our Company's approach to major risks and our policies for assessing and managing these risks. In connection with its oversight function, the Board regularly receives presentations from management on areas of risk facing our business. The Board and management actively engage in discussions about these potential and perceived risks to the business.

In addition, the Board is assisted in its oversight responsibilities by the standing Board committees, which have assigned areas of oversight responsibility for various matters as described in the Committee Charters and as provided in NYSE rules. For example, the Audit Committee of our Board (the Audit Committee) assists the Board in oversight of the integrity of our financial statements, the qualifications and independence of our independent registered public accounting firm and the performance of our internal audit function and independent registered public accounting firm. Pursuant to its charter, the Audit Committee also considers our policies with respect to risk assessment and risk management. The Audit Committee also reviews various potential areas of financial risk in detail on a regular basis. The Compensation Committee oversees the compensation of our Chief Executive Officer and other executive officers and evaluates the appropriate compensation incentives to motivate senior management to grow long-term shareholder returns without undue risk taking.

The Board committees also hear reports from the members of management to enable each committee to understand and discuss risk identification and risk management. The chairman of each of the Board's standing committees reports on the discussion to the full Board at the next board meeting. All directors have access to members of management in the event a director wishes to follow up on items discussed outside the board meeting.

Oversight of Compensation Risks. With respect to consideration of risks related to compensation, in February 2015, the Compensation Committee considered a report from management concerning its review of potential risks related to compensation policies and practices applicable to all of the Company's employees. The Committee also considered management's conclusion that the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on our Company.

In connection with preparing the report for the Compensation Committee's consideration, members of our senior management team, including our Chief Executive Officer, reviewed the target metrics for all of our employee incentive compensation plans. At the completion of the review, management concluded that the incentive compensation plans did not create any significant motivation or opportunity for employees to take undue risks to achieve an incentive compensation award. Instead, management concluded that employees who are eligible for incentive compensation are properly incentivized to achieve short- and long-term Company goals without creating undue risks for the Company. Following completion of its review, members of our senior management discussed the results of management's compensation risk assessment with the Compensation Committee. The Compensation Committee, following discussion, reached a similar conclusion. The Committee expects to further review compensation risks from time to time.

Board Meetings

The Board meets at regularly scheduled intervals and may hold additional special meetings as necessary or desirable in furtherance of its oversight responsibilities. As described above, the non-management directors generally meet in executive session without the presence of management in connection with each regularly scheduled board meeting.

Table of Contents

Board Orientation and Education

Each new director participates in an orientation program and receives material and briefings concerning our business, industry, management and corporate governance policies and practices. Continuing education is provided for all directors through board materials and presentations, discussions with management and the opportunity to attend external board education programs.

Director Stock Ownership Policy

Pursuant to the Corporate Governance Guidelines, each non-management director is encouraged to have a significant stock ownership in the Company. All directors are expected, within three years of election, to own at least \$100,000 of common stock of the Company, determined by using the acquisition price. All of our directors meet this stock ownership requirement.

Board Retirement Policy

The Corporate Governance Guidelines provide that no person will be nominated for election to the Board if he or she would attain the age of 73 during such term. The Board has discretion to make exceptions to the policy to provide for a transition period of service.

Committees of the Board of Directors

Our Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating/Corporate Governance Committee. Each of the standing committees operates pursuant to a written charter, which can be viewed at our website at www.psbusinessparks.com/corpGov.html. A print copy will be provided to any shareholder who requests a copy by writing to the Company's Secretary at PS Business Parks, Inc., 701 Western Avenue, Glendale, CA 91201-2349.

Our three standing committees are described below.

Audit Committee

The primary functions of the Audit Committee are to assist the Board in fulfilling its responsibilities for oversight of:

the integrity of our financial statements;

compliance with legal and regulatory requirements;

the qualifications, independence and performance of the independent registered public accounting firm; and

the scope and results of internal audits, the Company's internal controls over financial reporting and the performance of the Company's internal audit function.

Among other things, the Audit Committee appoints, evaluates and determines the compensation of the independent registered public accounting firm; reviews and approves the scope of the annual audit, the audit fee and the financial statements; approves all other services and fees performed by the independent registered public accounting firm; prepares the Audit Committee Report for inclusion in the annual proxy statement; and annually reviews its charter and performance. Additionally, the Audit Committee reviews and discusses with management and the independent auditor the Company's major financial risk exposures and the steps management has taken to monitor any significant non-financial risk exposures and related policies and practices to assess and control such exposures, including the Company's risk assessment and risk management policies.

The Board has determined that each member of the Audit Committee meets the financial literacy and

Table of Contents

independence standards of the NYSE. The Board has also determined that each member of the Audit Committee qualifies as an audit committee financial expert within the meaning of the rules of the SEC and NYSE.

Compensation Committee

The primary functions of the Compensation Committee as set forth in its charter are to:

determine, either as a committee or together with other independent directors, the compensation of the Company's Chief Executive Officer;

determine the compensation of other executive officers;

administer the Company's equity and executive officer incentive compensation plans;

review and discuss with management the Compensation Discussion and Analysis (CD&A) to be included in the proxy statement and incorporated by reference into the Annual Report on Form 10-K and to recommend to the Board inclusion of the CD&A in the Form 10-K and proxy statement;

provide a description of the processes and procedures for the consideration and determination of executive compensation for inclusion in the Company's annual proxy statement;

review with management its annual assessment of potential risks related to the Company's compensation policies and practices applicable to all employees;

review the advisory shareholder vote on the Company's executive compensation programs;

produce the Compensation Committee Report for inclusion in the annual proxy statement; and

evaluate its performance annually.

The Compensation Committee has not delegated any of its responsibilities to individual members of the committee or to a subcommittee of the committee, although it has the discretion to do so.

As required by the charter, during 2014, the Compensation Committee and in some instances, the Compensation Committee and the independent members of the Board, made all final compensation decisions for our named executive officers (the named executive officers), including the named executive officers set forth in the Summary Compensation Table below. The Compensation Committee has the sole authority to retain outside compensation consultants for advice, but historically and for 2014, has not done so, relying instead on surveys of publicly available information for information about senior executive compensation at similar companies. For a discussion of the Compensation Committee's use of survey information in 2014, as well as the role of Mr. Russell, our Chief Executive Officer, in determining or recommending the amount of compensation paid to our named executive officers in 2014, see the CD&A beginning on page 26.

Nominating/Corporate Governance Committee

Edgar Filing: PS BUSINESS PARKS INC/CA - Form DEF 14A

The primary functions of the Nominating/Corporate Governance Committee are to:

identify, evaluate and make recommendations to the Board for director nominees for each annual shareholder meeting and to fill any vacancy on the Board;

Table of Contents

develop a set of corporate governance principles applicable to the Company and to review and assess the adequacy of those guidelines on an ongoing basis and recommend any changes to the Board; and

oversee the annual Board assessment of Board performance.

The Nominating/Corporate Governance Committee will consider properly submitted shareholder nominations for candidates for the Board. See Consideration of Candidates for Director below. Other duties and responsibilities include periodically reviewing the structure, size, composition and operation of the Board and each Board committee; recommending assignments of directors to Board committees; conducting a preliminary review of director independence; overseeing director orientation; and annually reviewing and evaluating its charter and performance.

Director Independence

The Board evaluates the independence of each director annually based on information supplied by directors and the Company, and on the recommendations of the Nominating/Corporate Governance Committee. The Corporate Governance Guidelines require that a majority of the directors be independent in accordance with the requirements of the NYSE. A director qualifies as independent unless the Board determines that the director has a material relationship with PS Business Parks, based on all relevant facts and circumstances, in accordance with NYSE rules. Material relationships may include commercial, industrial, consulting, legal, accounting, charitable, family and other business, professional and personal relationships, and the Board also considers the director's relationships with Public Storage.

Following its annual review of each director's independence, in February 2015, the Nominating/Corporate Governance Committee recommended to the Board and the Board determined that (1) each member of the Board, other than Ronald L. Havner, Jr. and Joseph D. Russell, Jr., is independent pursuant to the rules of the NYSE, and (2) each Audit Committee member as well as each Compensation Committee member meets the additional independence requirements of the rules of the SEC. Mr. Russell was deemed not independent because he serves as Chief Executive Officer and President of PS Business Parks. Mr. Havner was deemed not independent because he is Chairman, Chief Executive Officer and President of Public Storage. Mr. Pruitt is independent because he serves only as a Board member and not also an executive officer of Public Storage and PS Business Parks. Relationships between Public Storage and PS Business Parks are described on page 20.

Compensation of Directors

The Compensation Committee periodically reviews the Company's non-employee director compensation and recommends any changes to the Board. The Board makes the final determination as to director compensation. The Board has approved the mix of cash and equity compensation described below.

Retainers and Meeting Fees. Retainers are paid in cash quarterly and are pro-rated when a director joins the Board other than at the beginning of a calendar year. During 2014, each non-employee director was entitled to receive the following retainers and meeting fees for Board and Board committee service:

	Annual Retainer
Board member	\$ 25,000
Audit Committee Chair's supplemental retainer	\$ 10,000
Other standing Committee Chairs' supplemental retainer	\$ 5,000
Board meeting attendance (per meeting attended in person)	\$ 1,000
Board meeting attendance (per meeting attended by telephone)	\$ 500
Board committee meeting attendance (per meeting attended in person)	\$ 1,000
Board committee meeting attendance (per meeting attended by telephone)	\$ 500

Equity Awards. Each new non-employee director is, upon the date of his or her initial election by the

Table of Contents

Board or the shareholders to serve as a non-employee director, automatically granted an option to purchase 10,000 shares of Common Stock, which vests in five equal annual installments beginning one year from the date of grant, subject to continued service.

Annually, each non-employee director receives a non-qualified stock option to purchase 2,000 shares of Common Stock, which vests in five equal annual installments beginning one year from the date of grant based on continued service. The annual grants are made immediately following the annual meeting of shareholders at the closing price for the Common Stock on the NYSE on such date.

Upon the retirement of a director from the Board because the director is not nominated for re-election due to the Board's Mandatory Retirement Policy, all outstanding options held by the director vest effective with the date of his or her retirement and the director has one year to exercise all vested options.

Retirement Stock Grants. Under the Retirement Plan, each non-employee director of the Company receives, upon retirement as a director of the Company, 1,000 shares of fully-vested Common Stock for each full year of service as a non-employee director of the Company, up to a maximum of 8,000 shares. The awards are intended to retain and reward long-term service on the Board and to provide equity compensation to Board members. Directors receive any dividends paid on vested shares. At December 31, 2014, Messrs. Havner, Kropp and McGee were each entitled to receive 8,000 fully-vested shares of Common Stock upon retirement; Ms. Dunbar was entitled to receive 5,000 shares; Ms. Lewis was entitled to receive 4,000 shares; Messrs. Pruitt and Schultz were each entitled to 2,000 shares; and Mr. Rollo was entitled to receive 1,000 shares. As of December 31, 2014, the value of each award of 8,000 shares was \$636,320; the value of 5,000 shares was \$397,700; the value of 4,000 shares was \$318,160; the value of 2,000 shares was \$159,080; and the value of 1,000 shares was \$79,540, each based on the closing price of \$79.54 of our common stock on December 31, 2014.

Director Compensation in Fiscal 2014. The following table presents the compensation provided by the Company to our directors for the fiscal year ended December 31, 2014:

Name	Fees Earned or Paid in Cash	Director Retirement Shares (b)	Option Awards (c)	All Other Compensation (d)	Total
Ronald L. Havner, Jr. (a)		\$ 80,870	\$ 21,900	\$ 36,500	\$ 139,270
Jennifer Holden Dunbar	\$ 37,500	\$ 80,870	\$ 21,900	\$ 23,750	\$ 164,020
James H. Kropp	\$ 41,500	\$ 80,870	\$ 21,900	\$ 36,500	\$ 180,770
Sara Grootwassink Lewis	\$ 47,500	\$ 80,870	\$ 21,900	\$ 19,000	\$ 169,270
Michael V. McGee	\$ 41,500	\$ 80,870	\$ 21,900	\$ 36,500	\$ 180,770
Gary E. Pruitt	\$ 33,000	\$ 80,870	\$ 21,900	\$ 9,500	\$ 145,270
Robert S. Rollo	\$ 33,000	\$ 80,870	\$ 21,900	\$ 3,750	\$ 139,520
Peter Schultz	\$ 33,500	\$ 80,870	\$ 21,900	\$ 9,500	\$ 145,770

- (a) Ronald L. Havner, Jr., Chairman, and Joseph D. Russell, Jr. are also directors but did not receive any cash compensation for service as directors during 2014. Mr. Russell is also not eligible to participate in the retirement stock award program described above. Mr. Russell's compensation as Chief Executive Officer and President is set forth below beginning on page 33.
- (b) Following an amendment to the Retirement Plan, each non-employee director of the Company now can receive, upon retirement as a director of the Company (and provided he/she has completed eight years or more of service), 8,000 shares of Common Stock, an increase of 1,000 shares from the prior limit of 7,000 shares. The amount shown is calculated by multiplying the fair value of our Common Stock on the effective date of the change to the Retirement Plan by 1,000 shares.
- (c) Reflects the fair value on the date of grant of option awards during 2014. As of December 31, 2014, each director as of such date had the following number of options outstanding: Jennifer Holden Dunbar, 18,994 of which 12,912 are vested; Ronald L. Havner, Jr., 24,685 of which 18,603 are vested; James H. Kropp, 18,477 of which 12,395 are vested; Sara Grootwassink Lewis, 14,342 of which 6,192 are vested; Michael V. McGee, 26,751 of which 20,669 are vested; Gary E. Pruitt, 16,410 of which 5,364 are vested; Robert S. Rollo, 12,353 of

Table of Contents

which 2,071 are vested; Peter Schultz, 16,410 of which 5,364 are vested; and Joseph D. Russell, Jr., 50,686 of which 37,239 are vested. For a more detailed discussion of assumptions used in the calculation of these amounts, refer to Note 10 to the Company's audited financial statements for the fiscal year ended December 31, 2014, included in the Company's Annual Report on Form 10-K filed with the SEC on February 20, 2015.

(d) All other compensation consists of dividend equivalents paid on vested retirement shares.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised of James H. Kropp (Chairman), Jennifer Holden Dunbar, Michael V. McGee, Gary E. Pruitt and Robert S. Rollo, none of whom has ever been an employee of the Company. No member of the Compensation Committee had any relationship with the Company requiring disclosure under Item 404 of SEC Regulation S-K. No executive officer of PS Business Parks served on the compensation committee or board of directors of any other entity which has an executive officer who also served on our Compensation Committee or Board at any time during 2014.

Messrs. Havner and Russell are present or former officers of the Company and are members of the Board.

Consideration of Candidates for Director

Shareholder Recommendations. The policy of the Nominating/Corporate Governance Committee to consider properly submitted shareholder recommendations for candidates for membership on the Board is described below under "Identifying and Evaluating Nominees for Directors." Under this policy, shareholder recommendations may only be submitted by a shareholder entitled to submit shareholder proposals under the SEC rules. Any shareholder recommendations proposed for consideration by the Nominating/Corporate Governance Committee should include the nominee's name and qualifications for board membership, including the information required under Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act), and should be addressed to: Edward A. Stokx, Secretary, PS Business Parks, Inc., 701 Western Avenue, Glendale, California 91201-2349. Recommendations should be submitted in the time frame described in this proxy statement under "Deadlines for Receipt of Shareholder Proposals for Consideration at the 2016 Annual Meeting" on page 43.

Director Qualifications. Members of the Board should have high professional and personal ethics and values. They should have broad experience at the policy-making level in business or other relevant experience. They should be committed to enhancing shareholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties. Each director must represent the interests of all shareholders. In general, the Board seeks to add directors who meet the independence requirements of the NYSE rules. In addition, director candidates must submit a completed director questionnaire concerning matters related to independence determination, the determination of whether a candidate qualifies as an audit committee financial expert and other proxy disclosure matters and must satisfactorily complete a background investigation by a third-party firm.

The Board has delegated to the Nominating/Corporate Governance Committee responsibility for recommending to the Board new directors for election and assessing the skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment includes directors' qualifications as independent, as well as consideration of skills, knowledge, perspective, broad business judgment and leadership, relevant specific industry or regulatory affairs knowledge, business creativity and vision and experience, all in the context of an assessment of the perceived needs of the Board at that time. Although the Nominating/Corporate Governance Committee does not have and does not believe there is a need for a formal policy concerning diversity, it seeks to ensure that a diversity of experience and viewpoints are represented on the Board and is also guided by the principles set forth in the Committee charter. There are no other policies or guidelines that limit the selection of director candidates by the Nominating/Corporate Governance Committee, and the Committee and the Board have and exercise broad discretion to select director candidates who will best serve the Board, PS Business Parks and its shareholders.

Identifying and Evaluating Nominees for Directors. The Nominating/Corporate Governance Committee

Table of Contents

utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating/Corporate Governance Committee regularly assesses the appropriate size of the Board and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating/Corporate Governance Committee considers various potential candidates for director.

Candidates may come to the attention of the Nominating/Corporate Governance Committee through current Board members, professional search firms, shareholders or other persons. These candidates are evaluated at meetings of the Nominating/Corporate Governance Committee and may be considered at any point during the year.

As described above, the Nominating/Corporate Governance Committee considers properly submitted shareholder nominations of candidates for the Board in the same manner as other candidates. Following verification of the shareholder status of persons proposing candidates, recommendations will be aggregated and considered by the Nominating/Corporate Governance Committee prior to the issuance of the proxy statement for the annual meeting. If any materials are provided by a shareholder in connection with the recommendation of a director candidate, such materials are forwarded to the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee may also review materials provided by professional search firms or other parties in connection with a nominee who is not proposed by a shareholder. In evaluating such nominations, the Nominating/Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board.

Communications with the Board of Directors

The Company provides a process by which shareholders and interested parties may communicate with the Board. Any shareholder communication to the Board should be addressed to: Board of Directors, c/o Edward A. Stokx, Secretary, PS Business Parks, Inc., 701 Western Avenue, Glendale, California 91201-2349. Communications that are intended for a specified individual director or group of directors should be addressed to the director(s) c/o Secretary at the above address, and all such communications received will be forwarded to the designated director(s).

Table of Contents**STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Security Ownership of Certain Beneficial Owners**

The following table sets forth information as of the dates indicated with respect to persons known to the Company to be the beneficial owners of more than 5% of the outstanding shares of Common Stock:

Name and Address	Shares of Common Stock Beneficially Owned	
	Number of Shares	Percent of Class (1)
Public Storage	7,158,354	26.59%
701 Western Avenue		
Glendale, California 91201-2349 (2)		
The Vanguard Group, Inc.	2,808,967	10.43%
100 Vanguard Blvd.		
Malvern, PA 19355 (3)		
BlackRock, Inc.	2,317,690	8.61%
55 East 52 nd Street		
New York, NY 10022 (4)		
T. Rowe Price Associates, Inc.	2,603,470	9.67%
100 E. Pratt Street		
Baltimore, MD 21202 (5)		
Vanguard Specialized Funds	1,499,078	5.57%
100 Vanguard Blvd.		
Malvern, PA 19355 (6)		

- (1) The percent of class is calculated using the common stock ownership numbers as of the dates indicated below divided by shares outstanding on March 2, 2015 of 26,920,412 shares of Common Stock.
- (2) Holdings reported are as of March 2, 2015. The reporting persons listed above have filed a joint Schedule 13D, amended as of November 8, 2013. Public Storage has sole voting and dispositive power with respect to all such shares. The 7,158,354 shares of Common Stock in the above table do not include 7,305,355 Units held by Public Storage and affiliated partnerships which (pursuant to the terms of the agreement of limited partnership of our operating partnership) are redeemable by the holder for cash or, at the Company's election, for shares of the Company's common stock on a one-for-one basis. Upon conversion of the Units to Common Stock, Public Storage and its affiliated partnerships would own approximately 42.3% of the Common Stock (based upon the Common Stock outstanding at March 2, 2015 and assuming such conversion).

Edgar Filing: PS BUSINESS PARKS INC/CA - Form DEF 14A

- (3) Holdings reported as of December 31, 2014 as set forth in Schedule 13G filed on February 10, 2015 by The Vanguard Group, Inc., as investment adviser of its clients to report sole dispositive power with respect to 2,765,216 shares, sole voting power with respect to 55,891 shares, shared voting power with respect to 15,750 shares and shared dispositive power with respect to 43,751 shares.
- (4) Holdings reported as of December 31, 2014 as set forth in Schedule 13G filed on January 22, 2015 by BlackRock, Inc. and certain affiliates to report beneficial ownership and sole dispositive power with respect to 2,317,690 shares and sole voting power with respect to 2,212,152 shares.
- (5) Holdings reported as of December 31, 2014 as set forth in Schedule 13G filed on February 13, 2015 by T. Rowe Price Associates, Inc. (Price Associates), as investment adviser of its clients to report sole voting power with respect to 313,981 shares and sole dispositive power with respect to 2,603,470 shares. For SEC reporting purposes, Price Associates is deemed to be a beneficial owner of these securities. However, Price Associates

Table of Contents

has expressly disclaimed that it is an owner of such securities.

- (6) Holdings reported as of December 31, 2014 as set forth on a Schedule 13G filed on February 6, 2015 by Vanguard Specialized Funds to report sole voting power with respect to 1,499,078 shares.

Security Beneficial Ownership of Directors and Management

The following table sets forth information as of March 2, 2015 concerning the beneficial ownership of Common Stock of each director of the Company, the Company's Chief Executive Officer, the Chief Financial Officer and the other two most highly compensated persons who were executive officers of the Company on December 31, 2014 and all directors and executive officers as a group:

Name	Shares of Common Stock: Beneficially Owned (excluding options) (1) Shares Subject to Options (2)	
	Number of Shares	Percent of Class
Ronald L. Havner, Jr.	198,584(1)(3)	*
	19,417(2)	*
	218,001	*
Joseph D. Russell, Jr.	35,283(1)	*
	50,686(2)	*
	85,969	*
Jennifer Holden Dunbar	2,925(1)(4)	*
	13,726(2)	*
	16,651	*
Sara Grootwassink Lewis	3,000(1)	*
	9,074(2)	*
	12,074	*
James H. Kropp	12,425(5)	*
	13,209(2)	*
	25,634	*
Michael V. McGee	2,500(6)	*
	21,483(2)	*
	23,983	*
Gary E. Pruitt	2,000(1)	*
	8,247(2)	*
	10,247	*
Robert S. Rollo	1,302(1)	*
	2,471(2)	*
	3,773	*

Peter Schultz	1,210(2)	*
	8,247(2)	*
	9,457	*

Table of Contents

Name	Shares of Common Stock: Beneficially Owned (excluding options) (1) Shares Subject to Options (2)	
	Number of Shares	Percent of Class
John W. Petersen	8,804(1)	*
	46,548(2)	*
	55,352	*
Edward A. Stokx	6,321(1)	*
	29,997(2)	*
	36,318	*
Maria R. Hawthorne	12,771(1)	*
	16,550(2)	*
	29,321	*
All Directors and Executive Officers as a Group (12 persons)	287,125(1)(3)(4)(5)(6)	1%
	239,655(2)	*
	526,780	1.9%

* Less than 1%

- (1) Represents shares of Common Stock beneficially owned as of March 2, 2015. Except as otherwise indicated and subject to applicable community property and similar statutes, the persons listed as beneficial owners of the shares have sole voting and investment power with respect to such shares. Includes shares credited to the accounts of the executive officers of the Company that are held in the 401(k) Plan. Does not include restricted stock units described in the Grants of Plan-Based Awards table unless such units would vest and be issued within 60 days of the date of this table. The percentage held is calculated using the outstanding common shares on March 2, 2015 of 26,920,412 shares.
- (2) Represents options exercisable within 60 days of March 2, 2015 to purchase shares of Common Stock.
- (3) Includes 190,584 shares held by Mr. Havner and his spouse as trustees of the Havner Family Trust. Includes 1,500 shares held by a custodian of an IRA for the benefit of Mr. Havner and 2,500 shares held by a custodian of an IRA for Mr. Havner's spouse as to which she has investment power. Includes 4,000 shares owned by the Havner Family Foundation of which Mr. Havner and his wife are co-trustees but with respect to which Mr. and Mrs. Havner disclaim any beneficial interest. Does not include shares owned by Public Storage as to which Mr. Havner disclaims beneficial ownership. Mr. Havner is Chairman of the Board, President and Chief Executive Officer of Public Storage. See Security Ownership of Certain Beneficial Owners and Management on page 16 for Public Storage ownership.
- (4) All the shares are held by Ms. Dunbar and her spouse as trustees of the Lilac II Trust.
- (5) Includes 4,491 shares held by custodian of an IRA for the benefit of Mr. Kropp.
- (6) All the shares are held by a custodian of an IRA for the benefit of Mr. McGee.

Table of Contents

Policy Regarding Pledging of Shares

Our insider trading policy discourages (but does not prohibit) the pledging of shares of Common Stock by insiders.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and persons who own more than 10% of any registered class of the Company's equity securities to file reports of ownership and changes of ownership of those securities with the SEC and the NYSE. Executive officers, directors and greater than 10% shareholders are required by SEC regulations to provide the Company with a copy of all Section 10(a) forms that they file. Based on a review of the reports submitted to the Company and of filings on the SEC's EDGAR website and of written representations from executive officers and directors, the Company believes that all directors and officers filed timely reports.

Table of Contents

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Transaction Approval Policies and Procedures

With respect to transactions involving our directors, our Code of Ethics provides for review by the Board of related party transactions that might present a possible conflict of interest. The Nominating/Corporate Governance Committee reviews related party transactions involving Board members pursuant to the Code of Ethics. Directors are requested to submit information in advance to the Nominating/Corporate Governance Committee. The Committee considers the matters submitted to it and makes a recommendation to the Board with respect to any action to be taken. The director with an actual, potential or apparent conflict of interest does not participate in the decision-making process related to the transaction.

Our executive officers are subject to our BCS. Under the BCS, executive officers are required to discuss and seek pre-approval of the Chief Executive Officer for any potential conflicts of interest. In addition, the Audit Committee reviews, on an ongoing basis, related party transactions involving our executive officers and directors or Public Storage that may require Board pre-approval under applicable law or may be required to be disclosed in our financial statements.

Relationship with Public Storage

The properties in which the Company has an equity interest are generally owned by the operating partnership. As of March 6, 2015, the Company owned approximately 77.8% of the operating partnership's common partnership units. The remaining common partnership units were owned by Public Storage. The 7,305,355 Units held by Public Storage and affiliated partnerships are redeemable (pursuant to the terms of the agreement of limited partnership of the operating partnership) by the holder for cash or, at the Company's election, for shares of our Common Stock on a one-for-one basis. Upon conversion of the Units to Common Stock, Public Storage and its affiliated partnerships would own approximately 42.3% of the Common Stock (based upon the Common Stock outstanding at March 6, 2015 and assuming such conversion).

Management Agreement with Affiliates

The operating partnership operates industrial, retail and office facilities for Public Storage and partnerships and joint ventures of which Public Storage is a general partner or joint venturer (the Affiliated Entities) pursuant to a management agreement under which Public Storage and the Affiliated Entities pay to the operating partnership a fee of 5% of the gross revenues of the facilities operated for Public Storage and the Affiliated Entities. During 2014, Public Storage and the Affiliated Entities paid fees of approximately \$660,000 to the operating partnership pursuant to that management agreement. As to facilities directly owned by Public Storage, the management agreement has a seven-year term with the term being automatically extended for one year on each anniversary date (thereby maintaining a seven-year term) unless either party (Public Storage or the operating partnership) notifies the other that the management agreement is not being extended, in which case it expires, as to such facilities, on the first anniversary of its then scheduled expiration date. As to facilities owned by the Affiliated Entities, the management agreement may be terminated as to such facilities upon 60 days' notice by Public Storage (on behalf of the Affiliated Entity) and upon seven years' notice by the operating partnership.

Public Storage also provides property management services for the self-storage component of two assets owned by the Company. These self-storage facilities, located in Palm Beach County, Florida, operate under the Public Storage name. Under the property management contracts, Public Storage is compensated based on a percentage of the gross revenues of the facilities managed. Under the supervision of the Company, Public Storage 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, Public Storage 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 Public Storage can cancel the property management contract upon 60 days' notice. Management fee expenses under the contract were approximately \$70,000 for the year ended December 31, 2014.

Table of Contents

We had net amounts due from Public Storage of \$166,000 at December 31, 2014 for these contracts, as well as for certain operating expenses paid by us on behalf of Public Storage.

Public Storage also owns and licenses the PS Business Parks name and logo to the Company under a royalty-free license that may be terminated upon six-months' notice to the Company.

Cost Sharing Arrangements with Affiliates and Other Transactions

Pursuant to a cost sharing and administration services agreement, PS Business Parks shares the cost of certain administrative services and rental of corporate office space with Public Storage and its affiliates. During 2014 we paid costs totaling approximately \$451,000.

Ronald L. Havner, Jr., Chairman of the Board, is also Chairman of the Board, Chief Executive Officer and President of Public Storage. Gary E. Pruitt, a director, is also a member of the Public Storage Board.

Table of Contents**PROPOSAL 2****RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

The Board recommends that shareholders ratify the Audit Committee's selection of Ernst & Young as the Company's independent registered public accounting firm (Independent Accountants) for the fiscal year ending December 31, 2015. Ernst & Young has acted as the Independent Accountants since the Company's organization in 1990.

Ratification is not required by the Company's bylaws, but the Board believes that shareholder ratification of the appointment is good corporate governance. If shareholders do not ratify the appointment of Ernst & Young, the Audit Committee will reconsider its selection, but may nevertheless determine to do so. Even if the appointment of Ernst & Young is ratified by the shareholders, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that a change would be in the best interest of the Company and its shareholders.

Representatives from Ernst & Young will be in attendance at the 2015 Annual Meeting and will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

Audit and Non-Audit Fees

The following table shows the fees billed or expected to be billed to the Company by Ernst & Young for audit and other services provided for fiscal 2014 and 2013:

	2014	2013
Audit fees (1)	\$ 460,000	\$ 477,000
Audit-related fees (2)	\$ 20,000	\$ 20,000
Tax Fees (3)	\$ 87,000	\$ 59,000
Total	\$ 567,000	\$ 556,000

(1) Audit fees represent fees for professional services provided in connection with the audit of the Company's annual financial statements and internal control over financial reporting, review of the quarterly financial statements included in the Company's quarterly reports on Form 10-Q and services in connection with the Company's registration statements, securities offerings and audits of financial statements of certain acquired assets.

(2) Audit-related fees represent professional fees provided in connection with the audit of the Company's 401(k)/Profit Sharing Plan and property acquisition audits.

(3) During 2014 and 2013, all of the tax services consisted of tax compliance and consulting services.

Auditor Independence

The Audit Committee has determined that the Independent Accountants' provision of the non-audit services described above is compatible with maintaining the Independent Accountants' independence.

Policy to Approve Ernst & Young LLP Services

The Audit Committee has adopted a pre-approval policy relating to services performed by the Company's independent registered public accounting firm. Under this policy, the Audit Committee of the Company pre-approved all services performed by Ernst & Young during 2014, including those listed in the previous table. The Chairman of the Audit Committee has the authority to grant required approvals between

meetings of the Audit Committee, provided that any exercise of this authority is presented at the next committee meeting.

Table of Contents

Audit Committee Report

The Audit Committee's responsibilities include appointing the Company's independent registered public accounting firm, pre-approving audit and non-audit services provided by the firm and assisting the Board in providing oversight to the Company's financial reporting process. In fulfilling its oversight responsibilities, the Audit Committee meets with the Company's independent registered public accounting firm, internal auditors and management to review accounting, auditing, internal controls and financial reporting matters.

In fulfilling its responsibilities, the Audit Committee meets with the Company's independent registered public accounting firm, internal auditor and management to review accounting auditing internal controls and financial reporting matters. Management is responsible for the Company's financial statements, including the estimates and judgments on which they are based, for maintaining effective internal controls over financial reporting and for assessing the effectiveness of internal controls over financial reporting. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and for issuing a report thereon. It is not the Audit Committee's responsibility to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete, accurate and in accordance with U.S. generally accepted accounting principles and applicable laws, rules and regulations. The Audit Committee's responsibility is to monitor and oversee these processes and necessarily relies on the work and assurances of the Company's management and of the Company's independent registered public accounting firm.

In connection with its oversight responsibilities related to the Company's financial statements included in the Company's Annual Report on Form 10-K, the Audit Committee met with management and Ernst & Young LLP, the Company's independent registered public accounting firm, and reviewed and discussed with them the audited consolidated financial statements. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by PCAOB Auditing Standard No. 16 (Communication with Audit Committees), as modified or supplemented. The Audit Committee also discussed with the Independent Accountants the overall scope and plans for the annual audit, the results of their examinations, their evaluation of the Company's internal controls and the overall quality of the Company's financial reporting.

The Company's independent registered public accounting firm also provided to the Audit Committee the written disclosures and the letter required by the applicable rules of the Public Company Accounting Oversight Board, and the Audit Committee discussed with the independent registered public accounting firm that firm's independence. In addition, the Audit Committee has considered whether the independent registered public accounting firm's provision of non-audit services to the Company and its affiliates is compatible with the firm's independence.

During 2014, management documented, tested and evaluated the Company's system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and SEC regulations adopted thereunder. The Audit Committee met with representatives of management, the internal auditors, legal counsel and the independent registered public accounting firm on a regular basis throughout the year to discuss the progress of the process. At the conclusion of this process, the Audit Committee received from management its assessment and report on the effectiveness of the Company's internal controls over financial reporting. In addition, the Audit Committee received from Ernst & Young LLP its attestation report on the Company's internal control over financial reporting. These assessments and reports are as of December 31, 2014. The Audit Committee reviewed and discussed the results of management's assessment and Ernst & Young LLP's attestation.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the Securities and Exchange Commission. The Audit Committee also approved the appointment of Ernst & Young LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2015 and

Table of Contents

recommended that the Board submit this appointment to the Company's shareholders for ratification at the 2015 Annual Meeting.

THE AUDIT COMMITTEE

Sara Grootwassink Lewis, Chair

Jennifer Holden Dunbar

Peter Schultz

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR
THE PROPOSAL TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2015.**

Table of Contents

EXECUTIVE OFFICERS

The following is a biographical summary of the executive officers of the Company that are not also serving as a director:

John W. Petersen, age 51, has been Executive Vice President and Chief Operating Officer since he joined the Company in December, 2004. Prior to joining the Company, Mr. Petersen was Senior Vice President, San Jose Region, for Equity Office Properties from July, 2001 to December, 2004, responsible for 11.3 million square feet of multi-tenant office, industrial and R&D space in Silicon Valley. Prior to EOP, Mr. Petersen was Senior Vice President with Spieker Properties, from 1995 to 2001 overseeing the growth of that company's portfolio in San Jose, through acquisition and development of nearly three million square feet. Mr. Petersen is a graduate of The Colorado College in Colorado Springs, Colorado, and was recently the President of National Association of Industrial and Office Parks, Silicon Valley Chapter.

Edward A. Stokx, age 49, a certified public accountant, has been Chief Financial Officer and Secretary of the Company since December, 2003 and Executive Vice President since March, 2004. Mr. Stokx has overall responsibility for the Company's finance and accounting functions. In addition, he has responsibility for executing the Company's financial initiatives. Mr. Stokx joined Center Trust, a developer, owner, and operator of retail shopping centers in 1997. Prior to his promotion to Chief Financial Officer and Secretary in 2001, he served as Senior Vice President, Finance and Controller. After Center Trust's merger in January, 2003 with another public REIT, Mr. Stokx provided consulting services to various entities. Prior to joining Center Trust, Mr. Stokx was with Deloitte and Touche from 1989 to 1997, with a focus on real estate clients. Mr. Stokx earned a Bachelor of Science degree in Accounting from Loyola Marymount University.

Maria R. Hawthorne, age 55, was promoted to Executive Vice President, Chief Administrative Officer of the Company in July, 2013. Ms. Hawthorne most recently served as Executive Vice President, East Coast from February, 2011 to July, 2013. Ms. Hawthorne served as Senior Vice President from March, 2004 to February, 2011, with responsibility for property operations on the East Coast, which includes Northern Virginia, Maryland and South Florida. From June, 2001 through March, 2004, Ms. Hawthorne was Vice President of the Company, responsible for property operations in Virginia. From July, 1994 to June, 2001, Ms. Hawthorne was a Regional Manager of the Company in Virginia. From August, 1988 to July, 1994, Ms. Hawthorne was a General Manager, Leasing Director and Property Manager for American Office Park Properties. Ms. Hawthorne earned a Bachelor of Arts Degree in International Relations from Pomona College.

Table of Contents

COMPENSATION AND OTHER INFORMATION CONCERNING EXECUTIVE OFFICERS

The following section summarizes our philosophy and objectives regarding the compensation of our named executive officers, including how we determine the elements and amounts of executive compensation. This section should be read in conjunction with our tabular disclosures regarding the compensation of our named executive officers in the year ended December 31, 2014 and the report of the Compensation Committee of our Board of Directors, which can be found on page 32 of this proxy statement.

Compensation Discussion and Analysis

Our compensation goals are to hire, retain and motivate our senior management to create long-term shareholder value. At our 2014 Annual Meeting, more than 94% of the votes cast on our say-on-pay proposal were voted in favor of the proposal. Our Compensation Committee considered the results of this vote and concluded that its pay for performance philosophy is supported by shareholders.

2014 Executive Compensation Highlights

2014 Company Performance. The overall economy and commercial property owners specifically continued to experience a very slow recovery, making it difficult for owners and our management team to consistently grow rents across the country. Despite these challenges, our management team was able to deliver solid results on several fronts. For fiscal year 2014, net operating income (NOI) increased 6.2% over 2013 (excluding assets held for sale or sold) through increases in weighted average occupancy and average rents. Management improved occupancy on the 2.7 million square feet acquired in 2012 and 2013 from 74.6% to 87.7% as of December 31, 2014. In addition, during 2014, the Company sold a combined total of 1.9 million square feet along with some parcels of land in Beaverton, Oregon and Phoenix, Arizona for proceeds of \$212.2 million resulting in a gain of \$92.4 million. In conjunction with the sales, the Company paid a one-time special cash dividend of \$2.75 per common share. The Company continued to maintain a conservative financial profile.

2014 Executive Compensation. The Compensation Committee's decisions with respect to 2014 compensation are discussed in detail below. To summarize the Committee's decisions:

base salaries for the named executive officers were maintained at 2013 levels;

based on management's achievement of 11.8% growth in 2014 adjusted funds available for distribution (FAD) and 2.2% growth in Same Park NOI, bonuses paid to the named executive officers for 2014 were at 99.75% of their total targeted opportunity and ranged from \$260,000 to \$710,376;

the annual targeted total return was not achieved under the Company's 2012-2015 long term equity incentive program (the 2012-2015 LTEIP), so no restricted stock units (RSUs) under the 2012-2015 LTEIP were awarded to the named executive officers for 2014 performance and, in addition, the Company determined that it was unlikely that any grants would ever be awarded under this plan, as described further below;

the annual threshold total return of 8.7% was achieved under the Company's 2014-2017 long term equity incentive program (the New LTEIP) as a result, 39,332 performance-based RSU awards were granted to the named executive officers in March 2015 for 2014 performance; and

no stock options were awarded to the named executive officers during 2014, and the Committee does not anticipate making any stock option grants to the named executive officers during the remaining term of the 2012-2015 LTEIP or the New LTEIP, each of which provides for awards of RSUs if targets/conditions are achieved.

2015 Compensation Outlook

Edgar Filing: PS BUSINESS PARKS INC/CA - Form DEF 14A

Although the Committee believes the Company is well-positioned to meet the challenges, the operating environment for commercial real estate in 2015 continues to be challenging. Given these expectations, the

Table of Contents

Compensation Committee met in February and March 2015 and made the following decisions for 2015 executive officer compensation:

executive officer base salaries are to be maintained at 2014 levels;

2015 bonus target amounts are set at 100% of base salary for each executive officer if the 100% bonus target is achieved;

the threshold for payment of bonuses is again tied to achieving targeted levels of growth in Same Park NOI and adjusted FAD; in determining whether the bonus paid is to be at, above, or below, the target bonus amount, the Compensation Committee will solicit the views of the Chief Executive Officer (with respect to the other named executive officers) and the Chairman and the Board, with respect to the Chief Executive Officer, taking into account the performance of each named executive officer, including achievement of individual performance goals and other factors deemed relevant by the Compensation Committee; and

for purposes of Section 162(m) of the Internal Revenue Code, if applicable, all named executive officer bonuses are capped at five times base salary.

PS Business Parks Executive Officer Stock Retention Requirement

Our executive officers are required to retain 20% of shares of our common stock previously acquired under the Senior Executives Long-Term Incentive Program for 2005-2008 for the duration of their employment by PS Business Parks. Similarly, executives are required to retain 20% of any shares of our common stock that may be awarded under the 2012-2015 LTEIP for the duration of their employment with PS Business Parks.

Executive Compensation Philosophy and Objectives

Our compensation goals are to hire, retain and motivate our senior management to create long-term shareholder value. We pay our named executive officers a mix of cash and long-term equity compensation that we consider appropriate in view of individual and corporate performance, competitive levels, and our objective of aligning individual and shareholder interests to maximize the value of our shareholders investments in our securities.

In general, our compensation program for named executive officers consists of (1) payment of a base salary, (2) short-term incentives in the form of annual cash bonuses and (3) long-term incentives in the form of equity awards, which may be restricted stock units or stock options, which vest upon continued service or the achievement of defined performance goals. Annual and long-term incentive compensation for named executive officers is designed to reward achievement of Company-wide performance goals by tying awards primarily to financial objectives such as growth in FAD, Net Asset Value (NAV), Same Park NOI and the performance of acquired properties and the achievement of targeted levels of property-level returns after transactional capitalized expenditures. Other corporate and individual objectives are also considered from time to time.

Because each component of our compensation program is designed to accomplish or reward different objectives, historically and in 2014, the Compensation Committee determined the award of each component separately. Historically and in 2014, the Compensation Committee did not retain or rely on information provided by any third-party compensation consultant in setting compensation levels and awards for our named executive officers.

The Compensation Committee reviews information concerning compensation of executive officers at the Compensation Survey Companies named on page 31. However, information regarding the Compensation Survey Companies is only one factor considered by the Compensation Committee in determining the compensation paid to the named executive officers. The Compensation Committee also considers corporate, business unit and individual performance generally, and, particularly with respect to Mr. Russell's compensation, input from other Board members, including the Chairman of the Board. With respect to the compensation of the executive officers who report to Mr. Russell, the Compensation Committee also considers the recommendations of Mr. Russell.

The Compensation Committee made all final compensation decisions for named executive officers in 2014.

Table of Contents

For more information on the Compensation Committee and its responsibilities, see Corporate Governance and Board Matters Compensation Committee on page 11.

Elements of Compensation

Base Salaries. Base salaries provide a base level of monthly income for our named executive officers. We believe that providing a fixed level of guaranteed cash compensation is important to allow us to attract and retain executives. We establish base salaries for named executive officers at levels sufficient to achieve our hiring and retention goals but where a significant portion of the total annual cash compensation such executives can earn is performance-based through our annual cash bonus program as opposed to through base salaries.

Base salaries are set based on factors that include whether levels are competitive with the salaries for individuals with comparable experience and responsibilities at the Compensation Survey Companies, competitive conditions in the local market, an individual's performance and responsibilities and the business judgment of the members of the Compensation Committee. The factors considered also include input from other Board members, including the Chairman of the Board, particularly with respect to Mr. Russell's salary, and the recommendations of Mr. Russell for the other named executive officers. In general, the Compensation Committee reviews base salaries every two years for the named executive officers.

Bonuses. Our annual incentive cash bonus program provides an opportunity to reward named executive officers for performance during the fiscal year. It is generally based on the achievement of corporate, or a combination of corporate and individual, performance goals. The corporate performance goals generally relate, in any given year, to one or more of the following financial factors: growth in FAD, growth in Same Park revenue, growth in Same Park NOI and/or the maintenance of targeted levels of property-level returns after transactional capitalized expenditures. Achievement of other operational and financial goals may also be included from time to time. Individual performance goals vary from year to year depending on management's and the Compensation Committee's view of what is required.

Target annual incentive bonus amounts are set for each named executive officer typically at 100% of base salary. The actual awards are determined by the Compensation Committee after determining that the targeted corporate performance metrics have been achieved and, with respect to individual and other goals, considering the recommendations of the Chief Executive Officer with respect to the performance of the other named executive officers. In addition, the Compensation Committee solicits the views of the Chairman and the Board, particularly with respect to the performance of the Chief Executive Officer. The Compensation Committee has the discretion to increase or reduce the amount of any actual award based on those factors that the Compensation Committee considers appropriate.

Equity-Based Compensation. Equity awards of RSUs or stock options are long-term incentives designed to reward long-term growth in the price of and, in the case of RSUs, dividends paid on our common stock. Both types of equity awards help retain executives because they achieve their maximum value only if the executive continues to be employed by us for a period of years and their value is enhanced if the price of our common stock increases over the common stock price on the date of grant. RSU awards may also offer value during difficult market conditions because they retain some value even in declining markets, which may enhance their retention value at a time when we may most need executive talent. Stock options have value solely to the extent that the price of our common shares increases over the grant price during the term of the option. Stock options are granted with an exercise price of not less than 100% of the fair market value of our common stock on the date of grant so that the executive officer may not profit from the option unless the stock price increases. No stock options were awarded to executive officers in 2014, and the Compensation Committee does not anticipate granting stock options to any current executive officer during the remaining term of the 2012-2015 LTEIP or the New LTEIP.

The Compensation Committee has the discretion to award executive officers RSUs, stock options or a mix of both. The Compensation Committee does not set awards based on a fixed weighting between stock options and RSUs. However, it may determine not to award stock options or RSUs during certain periods. The Committee anticipates that the focus will be on RSU awards that may be made under the New LTEIP for the 2014-2017 performance period.

Table of Contents

Equity Grant Practices

Equity grants, including grants of restricted stock, RSUs or stock options, to all executive officers, including named executive officers, must be approved by the Compensation Committee. These grants occur only at meetings of the Compensation Committee, and such grants are made effective as of the date of the meeting or a future date, if appropriate (such as in the case of a new hire). In general, the Compensation Committee evaluates equity awards for executive officers in February or March of each year and evaluates the awards in light of performance during the preceding year. Equity awards are not timed in coordination with the release of material non-public information. The exercise price of all options granted is equal to the closing market price of our common stock on the date of grant.

Equity awards, including grants of stock options, to employees who are not executive officers may also be made by the Equity Awards Committee of the Board, which consists of two directors appointed by the Board, currently and during 2014, Messrs. Havner and Russell. These grants are made pursuant to the terms of the 2012 Equity and Performance-Based Incentive Compensation Plan and the authorization of the Board. The Equity Awards Committee acts after consideration of management's recommendations. Equity grants to non-executive officers may be made at various times during the year, but are not timed in coordination with the release of material non-public information. Awards to non-executive officers typically vest over a six-year period with vesting beginning one year following the date of grant and then in five equal annual installments.

2014 Compensation

2014 Base Salaries. The Compensation Committee typically reviews base salaries for increases every two years. In July 2013, the Compensation Committee approved increases in base salaries, effective July 1, 2013, for the named executive officers. Accordingly, Mr. Russell's base salary was set at \$567,500, Mr. Petersen's at \$355,000, Mr. Stokx's at \$275,000 and Ms. Hawthorne's at \$325,000. This was the first increase in the base salaries for these executive officers since 2011. No change in base salaries for these executive officers was considered in 2014 consistent with the Committee's practice to review base salaries every two years.

Annual Bonuses for 2014 Performance. In March 2014, the Compensation Committee met and considered the appropriate targets to incentivize senior management for 2014 performance in the light of still challenging market conditions. After consideration of the Company's strategic goals and input from Mr. Russell and other Board members, including the Chairman of the Board, the Committee determined that the threshold for payment of senior executive bonuses would be tied to achieving targeted levels of growth in adjusted FAD and Same Park NOI and that, in determining whether the bonus paid is to be at, above or below the target bonus amount, the Compensation Committee will solicit the views of the Chief Executive Officer (with respect to the other named executive officers) and the Chairman and the Board, with respect to the Chief Executive Officer, taking into account the performance of each named executive officer, including achievement of individual performance goals and other factors deemed relevant by the Compensation Committee. To achieve the targeted bonus amount at the 100% level, the Committee determined that 2014 adjusted FAD must exceed 2013 adjusted FAD by 5.0% and 2014 Same Park NOI must exceed 2013 Same Park NOI by 2.0%.

Adjusted FAD for these purposes is calculated after FAD is computed. FAD is computed by adjusting consolidated FFO for recurring capital improvements, which the Company defines as those costs incurred to maintain the assets' value, tenant improvements, lease commissions, straight-line rent, stock compensation expense, impairment charges, amortization of lease incentives and tenant improvement reimbursements, in-place lease adjustment and the impact of EITF Topic D-42. Consolidated FFO is computed as net income, before depreciation, amortization, minority interest in income, gains or losses on asset dispositions and nonrecurring items. For purposes of calculating the FAD bonus target amounts, 2014 FAD was also adjusted to neutralize the impact of maintenance capital expenditures and by (1) increases in preferred distributions due to the issuance of preferred securities and (2) income, capital and expenses incurred in connection with asset acquisitions in 2014.

The Compensation Committee selected FAD and Same Park NOI as financial metrics because of their importance to both the PS Business Parks senior executive team and to investors. For information related to our calculation of Same Park NOI, refer to our Form 10-K for the year ended December 31, 2014.

Table of Contents

In February 2015, the Compensation Committee considered that adjusted 2014 FAD was \$122.6 million, an 11.8% increase over 2013, and 2014 Same Park NOI was \$226.5 million, a 2.2% increase over 2013 Same Park NOI. These results qualified executive officers for bonuses at 100% of their targeted bonus level. After taking into account the performance of each named executive officer, the following bonus payments were made: \$710,376 for Mr. Russell, \$300,000 for Mr. Peterson, \$310,000 for Ms. Hawthorne and \$260,000 for Mr. Stokx.

The Chief Executive Officer did not participate in the deliberations of the Compensation Committee with respect to setting his bonus.

2014 Equity-based Compensation. The equity-based compensation opportunity afforded our executive officers in 2014 was limited to RSU awards that might be earned under the 2012-2015 LTEIP adopted in December 2011 and the New LTEIP adopted in March 2014.

Under both the 2012-2015 LTEIP and the New LTEIP, named executive officers are eligible to receive two types of awards of RSUs if the Company achieves targeted increases in total return (defined as growth in the Company's internally calculated net asset value (NAV) together with dividend yields) over annual and cumulative four-year performance periods. To the extent the total return target is not achieved for an annual award, the shares allocated for RSU awards in respect of such year are added to the shares that may be received if the four-year target is achieved.

2012-2015 LTEIP. As the annual targeted return was not achieved under the 2012-2015 LTEIP, no RSUs were awarded in 2014 under such program to the named executive officers for 2013 performance. As previously disclosed, management has determined that it is not probable that any targets under the remaining annual or cumulative periods of the 2012-2015 LTEIP will be met.

New LTEIP. In March 2014, the Compensation Committee reevaluated the effectiveness of the 2012-2015 LTEIP as a compensatory tool. The Compensation Committee considered the difficulties of achieving the performance targets established by the 2012-2015 LTEIP in light of the slower-than-targeted recovery in the Company's NAV due to continued challenges in our industry and in the economy as a whole. The Compensation Committee determined that, although the 2012-2015 performance metrics appear unlikely to be achieved, it remains important for senior management to remain focused on the Company's long-term performance, and be rewarded for that. As a result, the Compensation Committee approved the New LTEIP, which is effective for the 2014-2017 periods.

The New LTEIP provides for awards to be made to our executive officers if the Company achieves annual and four-year average total return levels that the Compensation Committee has determined to be challenging but achievable. The total return metric to be used for the New LTEIP is similar to the metric used for the 2012-2015 LTEIP, described above. Annual RSU awards may be made following completion of each of four separate annual performance periods, and a cumulative RSU award may be made in early 2018 based on total return achieved over the period 2014-2017. The New LTEIP places greater emphasis on achievement of annual total return goals than the 2012-2015 LTEIP, providing that executive officers may earn up to 20% of the potential RSU awards that may be made under the New LTEIP each year if the maximum performance level is achieved for that year, with the actual number of RSUs awarded each year determined based on achievement of threshold, target and maximum levels of total return. If the Company's total return does not meet the maximum performance level for any year, a number of RSUs equal to the difference between the maximum and the actual number of RSUs awarded for that year, if any, will be added to the pool of RSUs that may be awarded in respect of the cumulative award that may be made in early 2018. Any awards vest ratably over four years beginning on the date of the award. Participants receive dividends on RSUs during the vesting period.

The following table shows the number of RSUs that may be awarded to our named executive officers in respect of a given year and over the four-year averaging period assuming the Company's achievement of threshold, target and maximum performance levels of total return for each performance period. The table also shows the maximum number of RSUs each named executive officer may earn under the New LTEIP. The RSUs available for award under the New LTEIP have been allocated among the Chief Executive Officer and the other named executive officers based on the Compensation Committee's subjective assessment of each individual's relative responsibilities

Table of Contents

and contributions to the Company's total returns. With respect to the allocations to the named executive officers other than Mr. Russell, the committee also considered the recommendations of Mr. Russell.

Name	Potential Annual RSU Awards under New LTEIP, by Total Return Performance Level*			Total Number of RSUs That May be Awarded to Each Named Executive Officer under New LTEIP, Assuming Maximum Performance Level
	Threshold	Target	Maximum	
Joseph D. Russell, Jr.	16,666	21,428	25,000	125,000
Maria R. Hawthorne	8,000	10,286	12,000	60,000
John W. Petersen	8,000	10,286	12,000	60,000
Edward A. Stokx	6,666	8,572	10,000	50,000

* For purposes of the cumulative RSU awards, assumes that the Company's total return met the maximum performance level in each of the individual years in the performance period such that none of the potential RSU awards for an individual year were carried over for potential award based on the Company's four-year average total return performance.

In February 2015, the Compensation Committee determined that the threshold total return level under the New LTEIP was achieved for 2014. Accordingly, each of the named executive officers received grants in March 2015 for 2014 performance at the threshold level.

Role of Executive Officers. In general, Mr. Russell attends all meetings of the Compensation Committee at which (1) compensation of the other named executive officers or other employees is discussed and/or (2) Company-wide compensation matters, such as the consideration of new equity plans, are discussed. Mr. Russell does not vote on items before the Compensation Committee. As discussed in more detail below, the Compensation Committee solicits Mr. Russell's view on the performance of the executive officers reporting to him, including each of the other named executive officers. In general, the Compensation Committee sets the compensation for the other named executive officers after consideration of the recommendations prepared by Mr. Russell with respect to appropriate amounts to reward and incentivize each named executive officer. In addition, the Compensation Committee solicits the views of the Chairman of the Board and other Board members, particularly with respect to compensation for Mr. Russell. The Compensation Committee met eight times during 2014. Mr. Russell attended a portion of most of the meetings. Mr. Russell did not participate in the deliberations of the Compensation Committee with respect to setting his compensation.

Compensation Survey Companies. Each component of compensation for the named executive officers—salary, annual cash bonus and equity compensation—is based generally on the Compensation Committee's (and Mr. Russell's for each of the other named executive officers) subjective assessment of each individual's role and responsibilities, corporate and individual achievements and consideration of market compensation rates. Market compensation rates are considered by the Compensation Committee in determining compensation levels. However, we do not benchmark or specifically target certain levels of compensation. For the named executive officers, the Compensation Committee primarily determines market compensation rates by reviewing public disclosures of compensation paid to senior executive officers at other office and industrial companies with a total market capitalization and other metrics that the Compensation Committee considers broadly comparable (the Compensation Survey Companies). In 2014, the Compensation Survey Companies were:

Alexandria Real Estate Equities, Inc.
BioMed Realty Trust

First Industrial Realty Trust, Inc.
First Potomac Realty Trust

Boston Properties Inc.
Brandywine Realty Trust
Corporate Office Properties Trust
DCT Industrial Trust Inc.
Douglas Emmett, Inc.
Duke Realty Corp.
EastGroup Properties, Inc.

Franklin Street Properties Corp.
Highwoods Properties, Inc.
Kilroy Realty Corporation
Liberty Property Trust
Mack Cali Realty Corp.
ProLogis
SL Green Realty Corp.

Table of Contents

As discussed above, the information regarding the Compensation Survey Companies is only one factor considered by the Compensation Committee in determining the compensation paid to the named executive officers. The Compensation Committee also considers corporate, business unit and individual performance and the views of other Board members, including the Chairman, as well as the recommendations of Mr. Russell with respect to compensation of the other named executive officers.

Tax and Accounting Considerations ***Code Section 162(m)***. Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) imposes a \$1,000,000 limit on the annual deduction that may be claimed for compensation paid to each of the chief executive officer and three other highest paid employees of a publicly-held corporation (other than the chief financial officer). Certain performance-based compensation awarded under a plan approved by shareholders is excluded from that limitation, as is certain compensation paid by a partnership, such as the operating partnership. Most of our employees and all of our named executive officers are employed by the operating partnership. As a result, we do not believe the provisions of Section 162(m) apply to compensation for our named executive officers, who are employees of the operating partnership. However, our 2012 Equity and Performance-Based Incentive Compensation Plan was designed to permit the Compensation Committee to make awards that qualify for deduction as performance-based compensation consistent with the requirements of Section 162(m). The Compensation Committee generally considers the requirements of Section 162(m) when reviewing incentive compensation matters.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors of PS Business Parks, Inc. has reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014. This report is provided by the following independent directors who comprise the Compensation Committee:

THE COMPENSATION COMMITTEE

James H. Kropp (Chairman)

Jennifer Holden Dunbar

Michael V. McGee

Gary E. Pruitt

Robert S. Rollo

Table of Contents**Compensation of Executive Officers**

The following table sets forth certain information concerning the compensation for 2014 paid to the Company's principal executive officer, principal financial officer and the two other most highly compensated persons who were named executive officers of the Company on December 31, 2014. These four officers constitute all the Company's executive officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (1)	Bonus (2)	Stock Awards (\$ (3))	Non-Equity Incentive Plan Compensation (\$ (4))	All Other Compensation (5)	Total (\$)
Joseph D. Russell, Jr., <i>President and Chief Executive Officer</i>		\$ 568,301			\$ 710,376	\$ 10,400	\$ 2,621,190
				\$ 1,332,113			
	2014	\$ 518,301			\$ 718,455	\$ 10,200	\$ 1,246,956
	2013						
John W. Petersen, <i>Executive Vice President and Chief Operating Officer</i>	2012	\$ 468,290	\$ 126,225	\$ 256,400	\$ 224,400	\$ 10,000	\$ 1,085,315
		\$ 355,801			\$ 300,000	\$ 10,400	\$ 1,305,641
				\$ 639,440			
	2014	\$ 343,301			\$ 450,930	\$ 10,200	\$ 804,431
Edward A. Stokx, <i>Executive Vice President, Chief Financial Officer and Secretary</i>	2013						
	2012	\$ 330,790	\$ 89,100	\$ 192,300	\$ 158,675	\$ 10,000	\$ 780,865
	2014	\$ 275,801		\$ 532,813	\$ 260,000	\$ 10,400	\$ 1,079,014
	2013						
Maria R. Hawthorne, <i>Executive Vice President, Chief Administrative Officer</i>	2012	\$ 262,051	\$ 64,350		\$ 348,150	\$ 10,200	\$ 684,751
				\$ 128,200			
		\$ 248,290	\$ 66,825		\$ 118,800	\$ 10,000	\$ 572,115
		\$ 325,747			\$ 310,000	\$ 10,400	\$ 1,285,587
				\$ 639,440			
	2014	\$ 286,997	\$ 76,050		\$ 411,450	\$ 10,200	\$ 784,697
	2013						
	2012	\$ 248,237	\$ 66,825	\$ 128,200	\$ 118,800	\$ 10,000	\$ 572,062

- (1) Includes amounts of between \$747 and \$801 per annum in holiday emoluments paid to each named executive officer.
- (2) Includes (a) the portions of 2013 and 2012 cash bonuses that were not based on the achievement of pre-established performance criteria, and (b) the cash portion paid for 2011 bonuses. The remainder of the 2011 bonus was paid in RSUs that vest in five equal installments two years from the date of grant. Because the RSU award was not based on achievement of pre-established performance criteria, SEC rules consider the award to be part of 2012 (not 2011) compensation and therefore require the value of the awards to be reported as a Stock Award for 2012 and in the Grant of Plan Based Awards as a grant on February 22, 2012, the date the Compensation Committee approved the award.
- (3) See note (2) above. The amounts for stock awards reflect the grant date fair value. For a more detailed discussion and assumptions used in valuing the awards, refer to Note 10 to the Company's audited financial statements for the fiscal year ended December 31, 2014, included in the Company's Annual Report on Form 10-K filed with the SEC on February 20, 2015.

Edgar Filing: PS BUSINESS PARKS INC/CA - Form DEF 14A

- (4) Includes amounts earned pursuant to the Company's annual incentive award program. For Mr. Petersen, also includes \$1,500 and \$275 awarded under the deferred acquisition/disposition bonus plan for 2013 and 2012, respectively.
- (5) All Other Compensation for 2014 consists of Company contributions to the 401(k)/Profit Sharing Plan (4% of the annual cash compensation up to a maximum of \$10,400 in 2014).

Table of Contents**GRANTS OF PLAN-BASED AWARDS**

The following table sets forth certain information relating to grants of plan-based awards to the named executive officers during 2014.

Name		Grant Date	Target (\$)	Maximum (\$)
Joseph R. Russell, Jr.	Annual Incentive (1)	3-19-14	\$ 567,500	\$ 2,837,500
John W. Petersen	Annual Incentive (1)	3-19-14	\$ 355,000	\$ 1,775,000
Edward A. Stokx	Annual Incentive (1)	3-19-14	\$ 275,000	\$ 1,375,000
Maria R. Hawthorne	Annual Incentive (1)	3-19-14	\$ 325,000	\$ 1,625,000

- (1) These amounts relate to possible payouts under the annual bonus plan pursuant to performance criteria set by the Compensation Committee on March 19, 2014. Actual payouts are shown in the Summary Compensation Table.

OPTION EXERCISES AND STOCK VESTED IN 2014

The following table provides information about options exercised by the named executive officers during the fiscal year ended December 31, 2014.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(2)
Joseph D. Russell, Jr.	22,273	\$ 786,928	800	\$ 66,056
John W. Petersen	13,000	\$ 495,878	600	\$ 49,542
Edward A. Stokx		\$	400	\$ 33,028
Maria R. Hawthorne		\$	400	\$ 33,028

- (1) Value realized represents the difference between the market price of the Company stock at the time of exercise and the exercise price of the options. Does not reflect any tax or other required withholdings.
- (2) Value realized was calculated by multiplying the number of shares vesting by the closing price of our Common Stock on the NYSE on the vesting date as follows:

Name