PS BUSINESS PARKS INC/CA
Form DEF 14A
April 02, 2012

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.__)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

þ 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):

þ Fee not required.

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

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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April 2, 2012

TO THE SHAREHOLDERS OF

PS BUSINESS PARKS, INC.

Dear Shareholder:

On behalf of the Board of Directors of PS Business Parks, Inc., I am pleased to invite you to attend our 2012 Annual Meeting of Shareholders to be held on Monday, April 30, 2012, at 10:00 a.m., local time, at the Hilton Glendale Hotel, 100 West Glenoaks Boulevard, Glendale, California. You may attend the meeting in person or by proxy. Only shareholders showing proof of ownership of PS Business Parks common shares will be allowed to attend the meeting in person.

Your vote is important, and we strongly urge you to cast your vote. To ensure that your vote is recorded, please vote as soon as possible, whether or not you plan to attend in person. You may vote your shares over the Internet, by telephone or, if you elected to receive paper copies by mail, you may vote by mail by following the instructions on the proxy/voting instruction card. If you attend the meeting, you may withdraw your proxy at the meeting and vote your shares in person from the floor.

We appreciate your investment in PS Business Parks and look forward to seeing you at our 2012 Annual Meeting.

Sincerely,

Joseph D. Russell, Jr.

President and Chief Executive Officer

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PS BUSINESS PARKS, INC.

701 Western Avenue

Glendale, California 91201-2349

NOTICE OF THE 2012 ANNUAL MEETING OF SHAREHOLDERS

Please take notice that the 2012 Annual Meeting of Shareholders of PS Business Parks, Inc., a California corporation, will be held at the time and place and for the purposes indicated below.

Time and Date:	10:00 a.m., local time, on Monday, April 30, 2012.
Place:	The Hilton Glendale Hotel, 100 West Glenoaks Boulevard, Glendale, California.
Items of Business:	1. To elect eight directors from the nominees named in the attached proxy statement to serve until the 2013 Annual Meeting of Shareholders and until their successors are elected and qualified; 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, 2012; 3. To approve the PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan; 4. To hold an advisory vote to approve executive compensation; and 5. To consider and act upon such other matters as may properly come before the meeting or any adjournment or postponement thereof.
Recommendations Of the Board:	The Board of Directors recommends that you vote For each of the director nominees and For each of proposals 2, 3 and 4. The full text of these proposals is set forth in the accompanying proxy statement.
Adjournments and Postponements:	Any action on the items of business described above may be considered at the annual meeting at the time and on the date specified above or at any time and date to which the annual meeting may be properly adjourned or postponed.
Record Date:	You are entitled to vote at the meeting if you were a shareholder of record of PS Business Parks common stock at the close of business on March 9, 2012.
Voting:	**Your vote is very important.** To ensure your representation at the meeting, please mark your vote on the enclosed proxy/voting instruction card, then date, sign and mail the proxy/voting instruction card in the pre-addressed postage-paid return envelope included with these materials as soon as possible. If provided on your proxy/instruction card, you may also vote over the Internet or by telephone. You may revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the accompanying proxy statement on page 2.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 30, 2012: This proxy statement and our 2011 Annual Report are available at the Investor Relations section of our website (www.psbusinessparks.com).

By Order of the Board of Directors,

Stephanie G. Heim,

Vice President, Counsel & Assistant Secretary

April 2, 2012

This notice of annual meeting and proxy statement are first being distributed and made available to shareholders on or about April 2, 2012.

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PS BUSINESS PARKS, INC.

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

April 30, 2012

GENERAL INFORMATION

We are providing these proxy materials in connection with the solicitation by the Board of Directors of PS Business Parks, Inc. of proxies to be voted at our 2012 Annual Meeting and at any adjournment or postponement of the meeting. The 2012 Annual Meeting will be held on April 30, 2012 at 10:00 a.m. at the Hilton Glendale Hotel, 100 West Glenoaks Boulevard, Glendale, California.

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 of annual meeting and proxy statement is first being distributed and made available to shareholders on or about April 2, 2012 to holders of our common stock on March 9, 2012, the record date for our annual meeting. A copy of our Annual Report to Shareholders for the fiscal year ended December 31, 2011, which includes a copy of our 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.

Purposes of the Meeting:

To elect eight directors from the nominees named in Proposal 1 to the Board of PS Business Parks;

To ratify the appointment of Ernst & Young LLP as PS Business Park s independent registered public accounting firm for the fiscal year ending December 31, 2012, as set forth in Proposal 2;

To approve the PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan as set forth in Proposal 3;

To approve, in an advisory vote, executive compensation as set forth in Proposal 4; and

To consider any other appropriate matters properly brought before the meeting or any adjournment or postponement of the meeting.

Recommendations of the Board of Directors:

The Board recommends that you vote:

FOR the election of the eight nominees for director named in Proposal 1;

FOR ratification of the appointment of Ernst & Young LLP as the company s independent registered public accounting firm for fiscal year 2012 as set forth in Proposal 2;

FOR approval of the PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan as set forth in Proposal 3; and

FOR the advisory vote to approve executive compensation as set forth in Proposal 4.

VOTING

Who May Attend the Meeting

Only shareholders of record of PS Business Parks common stock at the close of business on the record date of March 9, 2012 will be entitled to vote at the meeting, or at any adjournment or postponement of the meeting. On the record date, PS Business Parks had approximately 24,203,400 shares of common stock issued and outstanding, each of which is entitled to one vote.

If your shares are held in the name of a bank, broker, trustee or other nominee and you plan to attend our annual meeting, you will need to bring proof of ownership, such as a recent bank or brokerage account statement. A complete list of our shareholders entitled to vote at the annual meeting will be available for inspection at our executive offices during regular business hours for a period of not less than ten days before the annual meeting.

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Voting Your Shares at the Annual Meeting

Voting shares in person at the annual meeting. Shares held in your name as the shareholder of record may be voted in person at the annual meeting. Shares for which you are the beneficial owner but not the shareholder of record may be voted in person at the annual meeting only if you obtain a legal proxy from the bank, broker, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the annual meeting, we recommend that you also vote by proxy as described below so that your vote will be counted if you later decide not to attend the meeting.

Voting shares without attending the annual meeting. Whether you hold shares directly as the shareholder of record or through a bank, broker, trustee or other nominee as the beneficial owner, you may direct how your shares are voted without attending the annual meeting. There are three ways to vote by proxy:

By Internet Shareholders may submit proxies over the Internet by following the instructions on the accompanying Notice of 2012 Annual Meeting of Shareholders. 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 Shareholders may submit proxies by telephone by calling the number on the accompanying Notice of 2012 Annual Meeting of Shareholders and following the instructions. 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 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 pre-addressed postage-prepaid envelope.

If additional matters are presented at the annual meeting. Other than the four items of business described in this proxy statement, we are not aware of any other business to be acted upon at the annual meeting. If you grant a proxy, the persons named as proxy holders, Ronald L. Havner, Jr. and Joseph D. Russell, Jr., will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any reason any of our nominees is not available as a candidate for director, the persons named as proxy holders will vote any shares represented by your proxy for such other candidate or candidates as may be nominated by the Board.

Inspector of elections. The inspector of elections will be a representative from our transfer agent, American Stock Transfer & Trust Company.

Special voting procedures for PS Business Parks 401(k)/Profit Sharing Plan participants. If you hold your shares as a participant in the PS 401(k)/Profit Sharing Plan, your proxy will serve as a voting instruction for the trustee of the plan with respect to the amount of common shares credited to your account as of the record date. If you provide voting instructions via your proxy/instruction card with respect to your shares held in the plan, the trustee will vote those common shares in the manner specified. The trustee will vote any shares for which it does not receive instructions in the same proportion as the shares 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, the trustee must receive your voting instructions by 9:00 a.m., Central time, on March 29, 2012.

Voting mechanics. If you grant a proxy and do not revoke it before the applicable voting deadline, the persons designated as proxies will vote the common shares represented thereby, if any, in the manner specified. **If you grant a proxy but do not indicate how your shares should be voted on a matter, the shares represented by your properly completed proxy/voting instruction card will be voted (1) For the election of the Board s nominees for director, (2) For the ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2012, (3) For approval of the PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan; (4) For approval of executive compensation, and (5) and in the discretion of the proxy holders on any other matter that may properly come before the meeting.** The persons designated as proxies reserve full discretion to cast votes for other persons if any of the nominees for director become unavailable to serve and to cumulate votes selectively among the nominees as to which authority to vote has not been withheld.

Changing your vote. You may change your vote before the vote at the annual meeting in accordance with the following procedures. Any change to your voting instructions for the PS 401(k)/Profit Sharing Plan must be provided by 9:00 a.m., Central time, on March 29, 2012. If you are the shareholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to the Corporate Secretary at PS Business Parks, Inc., 701 Western Avenue, Glendale, CA 91201-2349, prior to your shares being

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voted, or by attending the annual meeting and voting in person. Attendance at the meeting alone will not cause your previously granted proxy to be revoked unless you specifically make that request. For shares you hold beneficially in the name of a bank, broker, trustee or other nominee, you may change your vote by submitting new voting instructions to your bank, broker, trustee or nominee by 11:00 p.m., Pacific time, on March 30, 2012, or, if you have obtained a legal proxy from your bank, broker, trustee or other nominee giving you the right to vote your shares, by attending the meeting and voting in person.

Quorum

The presence at the meeting in person or by proxy of the holders of a majority of the outstanding shares of our common stock is necessary to constitute a quorum for the transaction of business. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining whether a quorum exists.

A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner. If the shareholders present or represented by proxy at the meeting constitute holders of less than a majority of the shares entitled to vote, our meeting may be adjourned to a subsequent date for the purpose of obtaining a quorum.

Voting Rights

With respect to the election of directors, each holder of common stock on the record date is entitled to cast as many votes as there are directors to be elected multiplied by the number of shares registered in the holder s name on the record date. With respect to all other matters, shareholders can cast one vote for each share of common stock registered in their name on March 9, 2012, the record date of the annual meeting.

Required Vote

Election of Directors: The eight candidates who receive the most votes cast at the meeting will be elected directors of PS Business Parks. Common shares not voted (whether by abstention or otherwise) will not affect the vote.

Ratification of Independent Registered Public Accounting Firm: This proposal requires the affirmative vote of at least a majority of the shares represented at the meeting and entitled to vote. Abstentions will have the effect of a vote against this proposal.

Approval of the PS Business Parks 2012 Equity and Performance-Based Incentive Compensation Plan: This proposal requires the affirmative vote of at least a majority of the shares represented at the meeting and entitled to vote. Abstentions will have the effect of a vote against this proposal. In addition, under the rules of the New York Stock Exchange, approval of the PS Business Parks 2012 Equity and Performance-Based Incentive Compensation Plan requires that the total vote cast on the proposal represent over 50% of the issued and outstanding shares.

Advisory vote to approve executive compensation: This proposal requires the affirmative vote of at least a majority of the shares represented at the meeting and entitled to vote. Abstentions will have the effect of a vote against this proposal. Although this proposal is not binding on the PS Business Parks Board of Directors, the Board will consider the results of the shareholder vote. Broker non-votes, if any, will have no effect on the outcome of this proposal.

Proxy Solicitation Costs

We will pay the cost of soliciting proxies. In addition to solicitation by mail, certain directors, officers and regular employees of the company and its affiliates may solicit the return of proxies by telephone, personal interview or otherwise. We may also reimburse brokerage firms and other persons representing the beneficial owners of our shares for their reasonable expenses in forwarding proxy solicitation materials to such beneficial owners. Alliance Advisors LLC may be retained to assist us in the solicitation of proxies, for which they would receive an estimated fee of $1,000 together with normal and customary expenses.

Important Notice Regarding Availability of Proxy Materials for the Shareholder Meeting to be Held on April 30, 2012

The accompanying Notice of 2012 Annual Meeting of Shareholders, this Proxy Statement, the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and a sample proxy card may be viewed, printed or downloaded from www.psbusinessparks.com/2012proxy.html.

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PS Business Parks Transfer Agent

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, 59 Maiden Lane, New York, NY 10038; telephone: (800) 937-5449.

CORPORATE GOVERNANCE AND BOARD MATTERS

Board Membership and Leadership

As of the date of this proxy statement, our Board has ten directors. As discussed below, eight of our directors are independent in accordance with the rules of the New York Stock Exchange and the company s Corporate Governance Guidelines. Effective with the 2012 Annual Meeting, Arthur M. Friedman, a director since 1998, and R. Wesley Burns, a director since 2005, are retiring from the Board. Accordingly, the Board has set the size of the Board at eight directors effective with the 2012 Annual Meeting.

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 was Chief Executive Officer of PS Business Parks from March 1998 until August of 2003 when he resigned to become Chief Executive Officer of Public Storage, a self-storage real estate investment trust (REIT). Public Storage is our largest shareholder and owns approximately 24.0% of our outstanding common stock and 23.2% of our Operating Partnership s common partnership units as of March 9, 2012. Mr. Havner s role as Chairman furthers his ongoing involvement with the business, and his in-depth knowledge of PS Business Parks operations and the real estate industry benefits the Board. Mr. Russell serves as Chief Executive Officer and is responsible for the day-to-day management and profitable growth of PS Business Parks.

PS Business Parks does 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.

In addition, the Board has established a position of independent presiding director, to provide for an independent leadership role on the Board. The independent 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, generally following 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 sessions are chaired by the independent presiding director. The position of independent presiding director of these sessions generally rotates annually among the chairs of the standing committees of the Board. For 2012, Arthur M. Friedman, Chairman of the Audit Committee, is serving in this role until his retirement from the Board at the 2012 Annual Meeting. Following the 2012 Annual Meeting, Sara Grootwassink Lewis, will then serve as Chairman of the Audit Committee and will serve as the independent presiding director for the remainder of 2012.

Board Responsibilities and Oversight of Risk Management

In connection with its oversight of risk to our business, the Board regularly considers management presentations on the company s operations and strategies and considers related risks to our business. As part of the Board s consideration, the Board and management actively engage in discussions of potential and perceived risks to the business. The Board routinely meets with the chief executive officer, the chief operating officer, the chief financial officer and other company officers as appropriate in the Board s consideration of matters submitted for board approval and risks associated with such matters.

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 New York Stock Exchange rules. For example, the Audit Committee assists the Board s 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.

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The Board and the Board committees hear reports from the members of management responsible for the matters considered to enable the Board and 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 March 2012, 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 and discussed with management, 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 our employee incentive compensation plans. At the completion of the review, management and the Committee concluded that the incentive compensation plans did not create undue risks for the company based on factors, including the following:

- The company has fewer than 100 employees who receive incentive compensation, and development and approval of the compensation plans and payouts is centralized with the Chief Executive Officer.
- Financial targets for bonus arrangements typically involve several different metrics, which discourages employees from focusing on a particular financial metric to the detriment of others or of the business as a whole.
- The company s incentive plans have various controls built into the plans to help ensure that employees are motivated to achieve the desired short- and long-term company goals.
- Final approval of incentive compensation for employees other than executive officers is made by our Chief Executive Officer who has a comprehensive understanding of the inter-relationship of all incentive programs for nonexecutives.
- Our Chief Executive Officer has the discretion to reduce recommended awards for any reason, including if he determines that the performance was not in the company s long-term interests.
- We do not provide earnings guidance, which we believe discourages management from taking risks to achieve quarterly or annual earnings targets.
- The company historically has maintained a very conservative financial profile and is funded primarily with perpetual preferred and common shares and retained earnings rather than debt.
- Property acquisitions and developments are approved by the Board after discussion with management, which facilitates board oversight of management s plans to grow the business.
- Equity awards to employees vest over several years or at the completion of a performance period, which helps to align our employees focus on long-term results.

As a result, we believe there is little motivation or opportunity for employees to take undue risks to achieve an incentive compensation award. Our review 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 at a meeting in March 2012.

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. During 2011, the Board held six meetings, the Audit Committee held five meetings, the Compensation Committee held seven meetings (of which four were held in connection with setting annual and four-year 2012-2015 total return targets for equity awards to senior management) and the Nominating/Corporate Governance Committee held two meetings. During 2011, each director elected to the Board at the 2011 Annual Meeting attended at least 75% of the meetings held by the Board of Directors and, if a member of a committee of the Board of Directors, 75% of the meetings held by both the Board of Directors and all committees of the Board of Directors on which he or she served. Directors are encouraged, but not required, to attend the annual meeting of shareholders. All continuing directors nominated for election to the Board at the 2012 Annual Meeting attended the 2011 annual meeting.

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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

All directors are expected, within three years of election, to own at least $100,000 of common stock of the company, determined using the acquisition price.

Board Retirement Policy

The Board s 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, subject to the Board s discretion to make exceptions to the policy to provide for a transition period of service. In considering nominees for election as director at the 2011 Annual Meeting, the Board agreed to re-nominate Arthur M. Friedman, who would otherwise have retired under the Board s retirement policy, for election as a director at the 2011 Annual Meeting to provide for a one-year period to transition his board responsibilities. Accordingly, Mr. Friedman will retire from the Board effective with the 2012 Annual Meeting.

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. The charters for the Audit, Compensation and Nominating/Corporate Governance Committees can be viewed at our website at www.psbusinessparks.com/corpGov.html and will be provided in print 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. The Board has determined that all members of the Audit, Compensation and Nominating/Corporate Governance Committees are independent directors under the rules of the New York Stock Exchange. In addition, all members of our Audit Committee are independent directors under the rules of the Securities and Exchange Commission (SEC) for audit committees.

Our three standing committees are described below, and the committee members are identified in the following table:

Director	Audit Committee	Compensation Committee	Nominating/Corporate Governance Committee
R. Wesley Burns			X
Arthur M. Friedman	X (Chairman)		X
Jennifer Holden Dunbar	X	X	
James H. Kropp		X (Chairman)	X
Sara Grootwassink Lewis	X		X
Michael V. McGee	X	X	X (Chairman)
Number of meetings in 2011:	5	7	2

Audit Committee

The primary functions of the Audit Committee are to assist the Board in fulfilling its responsibilities for oversight of (1) the integrity of the our financial statements, (2) compliance with legal and regulatory requirements, (3) the qualifications, independence and performance of the independent registered public accounting firm and (4) 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.

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The Audit Committee is comprised of four independent directors: Arthur M. Friedman (Chairman), Jennifer Holden Dunbar, Sara Grootwassink Lewis and Michael V. McGee. The Board has determined that each member of the Audit Committee meets the financial literacy and independence standards of the New York Stock Exchange. 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 the New York Stock Exchange.

Compensation Committee

The primary functions of the Compensation Committee as set forth in its charter are to (1) determine, either as a committee or together with other independent directors, the compensation of the company s Chief Executive Officer, (2) determine the compensation of other executive officers, (3) administer the company s equity and executive officer incentive compensation plans, (4) 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, (5) 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, (6) produce the Compensation Committee Report for inclusion in the annual proxy statement and (7) evaluate its performance annually. In addition, the Compensation Committee reviews with management its annual assessment of potential risks related to company s compensation policies and practices applicable to all employees and reviews the advisory shareholder vote on the company s executive compensation programs.

Pursuant to its charter, the Compensation Committee has the authority to delegate its responsibilities to individual members of the committee or to a subcommittee of the committee. To date, the Compensation Committee has not delegated any of its responsibilities.

As required by the charter, during 2011, 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, 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 2011, 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 Committee s use of survey information in 2011, 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 2011, see the CD&A below.

In March 2012, the Compensation Committee met with management to discuss management s annual review of the company s compensation policies and practices for all employees and its conclusions that these policies and practices do not encourage risks that are reasonably likely to have a material adverse effect on the company.

The Compensation Committee is comprised of three directors: James H. Kropp (Chairman), Jennifer Holden Dunbar and Michael V. McGee. Each member is independent under the rules of the New York Stock Exchange. In addition, each member of the Compensation Committee qualifies as a non-employee director for purposes of Rule 16b-3 under the Securities Exchange Act (the Exchange Act) and as an outside director for purposes of Section 162(m) of the Internal Revenue Code of 1986.

Nominating/Corporate Governance Committee

The primary functions of the Nominating/Corporate Governance Committee are to (1) identify, evaluate and make recommendations to the Board for director nominees for each annual shareholder meeting and to fill any vacancy on the Board, (2) 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 (3) 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 evaluating its charter and performance.

The Nominating/Corporate Governance Committee is comprised of five directors: Michael V. McGee (Chairman), R. Wesley Burns, Arthur M. Friedman, James H. Kropp and Sara Grootwassink Lewis. Each member is independent under the rules of the New York Stock Exchange.

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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. In making its determinations, the Board considers the standards for independence set forth in the requirements of the New York Stock Exchange rules. 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, subject to the provisions of Section 303A.02(b) of the New York Stock Exchange Listed Company Manual. 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, the largest shareholder of PS Business Parks. Section 303A.02(b) provides that a director is not independent if:

- The director is, or has been within the last three years, an employee of PS Business Parks, or an immediate family member is, or has been within the last three years, an executive officer of PS Business Parks.

- The director has received, or has an immediate family member who has received, during any 12-month period within the last three years more than $120,000 in direct compensation from PS Business Parks, other than director and committee fees.

- (1) The director is a current partner or employee of a firm that is PS Business Parks external auditor (currently Ernst & Young LLP), (2) the director has an immediate family member who is a current partner of such firm, (3) the director has an immediate family member who is a current employee of such firm and personally works on PS Business Parks audit or (4) the director or an immediate family member was within the last three years a partner or employee of such firm and personally worked on PS Business Parks audit within that time.

- The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of PS Business Parks present executive officers at the same time serves or served on that company s compensation committee.

- The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, PS Business Parks for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million or 2% of such other company s consolidated gross revenues.

The Nominating/Corporate Governance Committee annually reviews directors responses to a questionnaire asking about their relationships with the company (and those of immediate family members) and other potential conflicts of interest, as well as material provided by management related to transactions, relationships or arrangements between the company and directors and their immediate families. Based on its review in February 2012, 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., and (2) each member of the Audit Committee, the Compensation Committee and the Nominating/Corporate Governance Committee is independent pursuant to the rules of the New York Stock Exchange and each Audit Committee member meets the additional independence requirements of the rules of the SEC. Mr. Russell was determined not to be independent because of his status as Chief Executive Officer and President of PS Business Parks. Mr. Havner was deemed not independent because Mr. Havner is Chairman, Chief Executive Officer and President of Public Storage. Relationships between Public Storage and PS Business Parks are described on pages 42-43.

Compensation of Directors

General Compensation Arrangements. The Compensation Committee of the Board periodically reviews the company s non-employee director compensation and makes recommendations for any changes to the Board, which 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 2011, each non-employee director was entitled to receive the following retainers and meeting fees for Board and Board committee service:

An annual retainer of $25,000 paid quarterly.

A Board meeting fee of $1,000 for each meeting attended in person and $500 for each telephonic meeting.

A Board Committee fee of $1,000 for each meeting attended in person and $500 for each telephonic meeting.

The Chairman of the Audit Committee also receives an additional annual fee of $10,000, and the Chairman of each of the Compensation and Nominating/Corporate Governance Committees receive an additional annual fee of $5,000.

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Equity Awards. Each new non-employee director is, upon the date of his or her initial election by the 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 of the company, 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 company s common stock on the New York Stock Exchange 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. 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 7,000 shares. The awards are intended to retain and reward long-term service on the Board and to provide equity compensation to Board members. In December 2011, the Board increased the maximum award from 5,000 shares to 7,000 shares and determined to pay quarterly dividend equivalents on vested shares. At December 31, 2011, Messrs. Havner, Friedman and Kropp were each entitled to receive 7,000 fully-vested shares of common stock upon retirement; Mr. Burns was entitled to receive 6,000 shares; Mr. McGee was entitled to receive 5,000 shares; Ms. Dunbar was entitled to receive 2,000 shares and Ms. Lewis was entitled to receive 1,000 shares. As of December 31, 2011, the value of each award of 7,000 shares was $388,010; the value of 6,000 shares was $332,580; the value of 5,000 shares was $277,150; the value of 2,000 shares was $110,860 and the value of 1,000 shares was $55,430, each based on the closing price of $55.43 of our common stock on December 31, 2011.

The following table presents the compensation provided by the company to its non-employee directors for the fiscal year ended December 31, 2011.

Director Compensation Table

Name	Fees Earned or Paid in Cash	Stock Awards (b)	Option Awards (c)	All Other Compensation (d)	Total
Ronald L. Havner, Jr. (a)		$ 111,560	$ 12,420	$ 3,080	$ 127,060
R. Wesley Burns	$ 36,500	$ 111,560	$ 12,420	$ 2,640	$ 163,120
Jennifer Holden Dunbar	$ 37,000	$ 111,560	$ 12,420	$ 880	$ 161,860
Arthur M. Friedman	$ 45,500	$ 111,560	$ 740	$ 3,080	$ 160,880
James H. Kropp	$ 40,000	$ 111,560	$ 12,420	$ 3,080	$ 167,060
Sara Grootwassink Lewis	$ 33,500	$ 111,560	$ 12,420	$ 440	$ 157,920
Michael V. McGee	$ 37,000	$ 111,560	$ 12,420	$ 2,200	$ 163,180
Joseph D. Russell, Jr. (a)					

(a) Ronald L. Havner, Jr., Chairman, and Joseph D. Russell, Jr. are also directors; however, each received no cash compensation for service as a director during 2011. Mr. Russell is 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 26.

(b) The value of the stock awards reflects a one-time increase approved in December 2011 of 2,000 shares to each non-employee director s potential stock award upon retirement from the Board. Shares vest in full after seven years of service on the Board. The amount reflects the fair value on the date of grant of awards during 2011 calculated in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 10 to the company s audited financial statements for the fiscal year ended December 31, 2011, including in the company s Annual Report on Form 10-K filed with the SEC on February 27, 2012.

(c)

Reflects the grant date fair value of awards during 2011 calculated in accordance with FASB ASC Topic 718. As of December 31, 2011, each director as of such date had the following number of options outstanding: R. Wesley Burns: 10,000 of which 4,000 are vested; Jennifer Holden Dunbar: 14,000 of which 3,200 are vested; Arthur M. Friedman: 19,000 of which 13,000 were vested; Ronald L. Havner, Jr.: 18,000 of which 10,400 were vested; James H. Kropp: 18,000 of which 12,000 were vested; Sara Grootwassink Lewis: 14,000 of which 2,400 are vested; Michael V. McGee: 20,000 of which 14,000 were vested; and Joseph D. Russell, Jr.: 174,216 of which 163,000 were vested. Assumptions used in the calculation of these amounts are included in Note 10 to the company s audited financial statements for the fiscal year ended on December 31, 2011, included in the company s Annual Report on Form 10-K filed with the SEC on February 27, 2012.

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

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Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised of James H. Kropp (Chairman), Jennifer Holden Dunbar and Michael V. McGee, 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 the Compensation Committee or Board of PS Business Parks at any time during 2011.

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 2012 Annual Meeting on page 44.

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 New York Stock Exchange 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 Nominating/Corporate Governance Committee of the Board is responsible under the company s Corporate Governance Guidelines for reviewing with the Board 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.

The Board has delegated to the Nominating/Corporate Governance Committee responsibility for recommending to the Board new directors for election. 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 that each director should:

- Be an individual of the highest character and integrity;
- Have substantial experience which is of particular relevance to PS Business Parks;
- Have an understanding of the business environment and industry in which PS Business Parks operates;
- Have sufficient time available to devote to board affairs;

Represent the best interests of all stakeholders, including the company s shareholders;

Have his or her skill set complement the skill set of the other PS Business Parks directors; and

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Be able to read and understand financial statements.

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 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 of Directors. 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).

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines to set forth its guidelines for overall governance practices. The Guidelines are available on the company s website, www.psbusinessparks.com, or, upon written request, a paper copy is available from the company s Investor Services Department, 701 Western Avenue, Glendale, California 91201-2349.

Business Conduct Standards and Code of Ethics

The Board of Directors has adopted a code of Business Conduct Standards, applicable to directors, officers, and employees, and a Directors Code of Ethics. The Board has also adopted a Code of Ethics for its senior financial officers. The Code of Ethics for senior financial officers covers those persons serving as the company s principal executive officer, currently Joseph D. Russell, Jr., and principal financial officer and principal accounting officer, currently Edward A. Stokx.

The PS Business Parks Business Conduct Standards, the Directors Code of Ethics and the Code of Ethics for senior financial officers are available on the company s website, www.psbusinessparks.com, or, upon written request, a paper copy is available from the company s Investor Services Department, 701 Western Avenue, Glendale, California 91201-2349. Any amendments or waivers to the code of ethics for directors or executive officers will be disclosed on the company s website or other appropriate means in accordance with applicable SEC and New York Stock Exchange requirements.

PROPOSAL 1

ELECTION OF DIRECTORS

Nominees for Director

Upon the recommendation of our Nominating/Corporate Governance Committee, our Board has nominated the eight persons listed below to serve as directors for a one-year term beginning with the 2012 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. If any nominee is not able to serve, proxies may be voted in favor of the remainder of those nominated and may be voted for substitute nominees, if designated by the Board.

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Effective at the 2012 Annual Meeting, Arthur M. Friedman will retire from the Board pursuant to the Board s retirement policy. R. Wesley Burns also advised the Board that he planned to retire from the Board at the 2012 Annual Meeting. Accordingly, six of the eight directors elected at the 2011 Annual Meeting of Shareholders are standing for re-election at the 2012 Annual Meeting. Gary E. Pruitt and Peter Schultz were appointed directors by the Board in February 2012 and are standing for election by shareholders for the first time at the 2012 Annual Meeting. Messrs. Pruitt and Schultz were identified and recommended as nominees by non-management directors, and were considered and recommended to the Board for appointment to the Board by the Nominating/Corporate Governance Committee.

Ronald L. Havner, Jr., age 54, is Chairman of the Board, President, and Chief Executive Officer and a member of the board of Public Storage, an affiliate of PS Business Parks, since November 2002. He has been Chairman of PS Business Parks since March 1998 and was Chief Executive Officer of PS Business Parks from March 1998 until August 2003. He is also a member of the Board of Governors and the Executive Committee of the National Association of Real Estate Investment Trusts, Inc. (NAREIT), serving as Second Vice Chair. He is also a member of NYU REIT Center Board of Advisors and a director of Business Machine Security, Inc. During the last five years, Mr. Havner also served on the boards of Union BanCal Corporation and its subsidiary, Union Bank of California, and General Finance Corporation.

Mr. Havner has been the Chairman of the PS Business Parks Board since 1998 and was Chief Executive Officer of PS Business Parks from 1998 until August 2003. His qualifications for election to the PS Business Parks Board include his extensive leadership experience and company and industry knowledge. He is also the Chairman of the Board and Chief Executive Officer of Public Storage, our largest shareholder.

Joseph D. Russell, Jr., age 52, has been Chief Executive Officer and a director of PS Business Parks since August 2003 and President of PS Business Parks since September 2002. 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, and its predecessor for more than ten years, becoming an officer of Spieker Properties when it became a publicly held REIT in 1993. When Spieker Properties merged with Equity Office Properties Trust in 2001, Mr. Russell was President of Spieker Properties Silicon Valley Region. He is a member of the Board of Governors of the National Association of Real Estate Investment Trusts, Inc. (NAREIT).

Mr. Russell has been the Chief Executive Officer of PS Business Parks since 2003 and President beginning in 2002. His 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. As the only Board member who is also an active member of the PS Business Parks management team, Mr. Russell provides management s perspective in Board discussions about the operations and strategic direction of the company.

Jennifer Holden Dunbar, age 49, is a member of the Audit and Compensation Committees and became a director of PS Business Parks in February 2009. Since March 2005, Ms. Dunbar has served as Co-Founder and Managing Director of Dunbar Partners, LLC, an investment and advisory services firm. From 1994 to 1998, Ms. Dunbar was a Partner with Leonard Green and Partners, L.P., a private equity firm which she joined in 1989. During 2007 and 2008, Ms. Dunbar was a member of the Board of Directors of 99 Cents Only Stores, where she served on the Audit and Nominating & Governance Committees and chaired the Compensation Committee. Since 2004, Ms. Dunbar has also been a member of the board of directors of Big 5 Sporting Goods Corporation, where she serves on the Audit and Compensation Committees and chairs the Nominating Committee.

Ms. Dunbar s qualifications for election to the PS Business Parks Board include her financial expertise, knowledge of investment banking and her experience in investments and mergers and acquisitions. She also has experience as a member of several public company boards.

James H. Kropp, age 63, is Chairman of the Compensation Committee and a member of the Nominating/Corporate Governance Committee and became a director of PS Business Parks in March 1998. Mr. Kropp is the Chief Investment Officer at i3 Funds LLC beginning in 2009 and served as interim CFO of TaxEase LLC from 2009 to February 2012. He was Senior Vice President-Investments of Gazit Group USA, Inc., a real estate investor, from 2006 to 2008. He is a director as well as Chairman of the Audit Committee of Corporate Capital Trust, Inc., a registered investment company, from February 2011 to the present. He was a director of Trustreet Properties Inc. and its predecessor, US Restaurant Properties Inc., from 2002 through February 2007 and served as Chairman of its Audit Committee and Compensation Committee and as a member of the Nominating and Corporate Governance Committees during his tenure. Mr. Kropp was a trustee as well as Chairman of the Audit Committee and a member of the Governance and Independent Trustee Committees of The CNL Funds, a registered investment company, from May 2007 until February 2010.

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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 44, is a member of the Audit and Nominating/Corporate Governance Committees and became a director of PS Business Parks in February 2010. She is currently Chief Executive Officer of Lewis Corporate Advisors, LLC, a capital markets and board advisory firm. She 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. She has been a member of the Board of Directors of CapitalSource Inc. since 2004 and is a member of the Audit Committee and is the Chair of the Nominating and Corporate Governance Committee. Ms. Lewis is also a Chartered Financial Analyst and Certified Public Accountant, registered in the State of Illinois.

Ms. Lewis qualifications for election to the PS Business Parks Board include her previous executive and financial experience at another publicly traded REIT and her background as a Chartered Financial Analyst. She brings her extensive financial and real estate industry knowledge to the Board as well as her public company board experience as a member of the CapitalSource Inc. Board.

Michael V. McGee, age 56, is a member of the Audit Committee, the Compensation Committee and is Chairman of the Nominating/Corporate Governance Committee. Mr. McGee became a director of PS Business Parks in August 2006. Mr. McGee has been President and Chief Executive Officer of Pardee Homes since 2000. Pardee Homes is 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. Mr. McGee is also a member of the Board of Directors of HomeAid America. Mr. McGee has a J.D. degree from Southwestern University.

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

Gary E. Pruitt, 62, served as Chairman and Chief Executive Officer of Univar N.V. from 2002 until his retirement as Chief Executive Officer in 2010 and as Chairman in 2011. Univar N.V. 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.

Peter Schultz, 64, served as President, Chief Executive Officer and a director of The Beacon Group, Inc. and its affiliates for more than 25 years until his retirement in 2010. Under his leadership, The Beacon Group, Inc., based in Southern California, and its affiliates, engaged in the development and management of more than 3 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 The Beacon Group, Inc. and its affiliates.

Vote Required and Board Recommendation. The eight nominees receiving the greatest number of votes duly cast for their election as directors will be elected. Abstentions and broker non-votes will not affect the outcome of this proposal.

Your Board of Directors recommends that you vote FOR the election of each nominee named above.

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PROPOSAL 2

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee of the Board of Directors has appointed Ernst & Young LLP as the company s independent registered public accounting firm for the fiscal year ending December 31, 2012.

The company s bylaws do not require that shareholders ratify the appointment of Ernst & Young LLP as the company s independent registered public accounting firm. The company is asking its shareholders to ratify this appointment because it believes that shareholder ratification of the appointment is a matter of good corporate governance. If shareholders do not ratify the appointment of Ernst & Young LLP, the Audit Committee will reconsider whether or not to retain Ernst & Young LLP as the company s independent registered public accounting firm, but may nevertheless determine to do so. Even if the appointment of Ernst & Young LLP is ratified by the shareholders, the Audit Committee may change the appointment at any time during the year if it determines that a change would be in the best interest of PS Business Parks and its shareholders.

Representatives from Ernst & Young LLP, which has acted as the independent registered public accounting firm for the company since the company s organization in 1990, will be in attendance at the 2012 Annual Meeting and will have the opportunity to make a statement if they desire to do so and to respond to any proper questions.

Fees Billed to the Company by Ernst & Young LLP for 2011 and 2010

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 2011 and 2010:

	2011	2010
Audit fees (1)	$541,000	$483,000
Audit-related fees (2)	17,000	17,000
Tax fees (3)	50,000	80,000
All other fees		
Total	$608,000	$580,000

(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 2011 and 2010, all of the tax services consisted of tax compliance and consulting services.

Policy to Approve Ernst & Young 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 LLP during 2011, 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.

Your Board of Directors recommends that you vote FOR Proposal No. 2.

Audit Committee Report

The Audit Committee consists of four directors, each of whom has been determined by the Board to meet the New York Stock Exchange standards for independence and the SEC s requirements for audit committee member independence. The Audit Committee operates under a written charter adopted by the Board of Directors. The Audit Committee s charter may be found on the company s website at psbusinessparks.com/corpGov.html.

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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.

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. Management is responsible for the company s internal controls and the financial reporting process. 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. 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 this context, the Audit Committee has met with management and with Ernst & Young LLP, the company s independent registered public accounting firm, and has 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 Statement on Auditing Standards No. 61 (Communication with Audit Committees), as modified or supplemented.

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, 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 is compatible with the firm s independence.

During 2011, 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. The Audit Committee reviewed and discussed the results of management s assessment and Ernst & Young s attestation.

Based on the foregoing and the Audit Committee s discussions with management and the independent registered public accounting firm, and review of the representations of management and the attestation report of the independent registered public accounting firm, 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, 2011 for filing with the SEC. 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, 2012 and recommended that the Board submit this appointment to the company s shareholders for ratification at the 2012 Annual Meeting.

THE AUDIT COMMITTEE

Arthur M. Friedman, Chairman

Jennifer Holden Dunbar

Sara Grootwassink Lewis

Michael V. McGee

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 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 with the SEC initial reports (on Form 3) of ownership of the company s equity securities and to file subsequent reports (on Form 4 or Form 5) when there are changes in such ownership. Based on a review of the reports submitted to the company and of filings on the SEC s EDGAR website, the company believes that all directors and officers made timely reports.

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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 the company s common stock:

	Shares of Common Stock Beneficially Owned	
Name and Address	**Number of Shares**	**Percent of Class (1)**
Public Storage 701 Western Avenue Glendale, California 91201-2349 (2)	5,801,606	23.98%
The Vanguard Group, Inc. PO Box 2600 Valley Forge, PA 19482-2600 (3)	2,130,456	8.81%
BlackRock, Inc. 40 East 52nd Street New York, NY 10022 (4)	1,723,567	7.12%

(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 1, 2012 of 24,193,184 common shares.

(2) Holdings reported are as of March 1, 2012. The reporting persons listed above have filed a joint Schedule 13D, amended as of August 28, 2009. Public Storage has sole voting and dispositive power with respect to all such shares. The 5,801,606 shares of common stock in the above table do not include 7,305,355 units of limited partnership interest in PS Business Parks, L.P. (Units) held by Public Storage and affiliated partnerships which (pursuant to the terms of the agreement of limited partnership of PS Business Parks, L.P.) 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 41.6% of the common stock (based upon the common stock outstanding at March 1, 2012 and assuming such conversion).

(3) Holdings reported as of December 31, 2011 as set forth in Schedule 13G filed on February 10, 2012 by The Vanguard Group, Inc., as investment adviser of its clients to report beneficial ownership and sole dispositive power with respect to 2,102,383 shares and sole voting power with respect to 28,073 shares and shared dispositive power with respect to 28,073 shares.

(4) Holdings reported as of December 31, 2011 as set forth in Schedule 13G filed on February 10, 2012 by BlackRock, Inc. and certain affiliates to report beneficial ownership and sole voting and dispositive power with respect to 1,723,567 shares.

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Security Ownership of Management

The following table sets forth information as of March 1, 2012 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, 2011 and all directors and executive officers as a group:

	Shares of Common Stock: Beneficially Owned (excluding options) (1) Shares Subject to Options (2)	
Name	**Number of Shares**	**Percent of Class**
Ronald L. Havner, Jr.	198,584(1)(3)	.8%
	12,400(2)	*%
	210,984	.8%
Joseph D. Russell, Jr.	29,850(1)	.1%
	135,216(2)	.6%
	165,066	.7%
R. Wesley Burns	2,000(1)	*
	4,400(2)	*
	6,400	*
Jennifer Holden Dunbar	2,925(1)(5)	*
	5,200(2)	*
	8,125	*
Arthur M. Friedman	12,500(1)(4)	*
	13,400(2)	*
	25,900	.1%
Sara Grootwassink Lewis	1,000	*
	4,400(2)	*
	5,400	*
James H. Kropp	10,925(1)	*
	12,400(2)	*
	23,325	*
Michael V. McGee	2,500	*
	14,400(2)	*
	16,900	*
John W. Petersen	6,968(1)	*
	54,000(2)	.2%
	60,968	.3%

Edward A. Stokx	6,679(1)	*
	14,000(2)	*
	20,679	*

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Name	Shares of Common Stock: Beneficially Owned (excluding options)(1) Shares Subject to Options (2) Number of Shares	Percent of Class
Maria R. Hawthorne	13,966(1)	*
	8,000(2)	*
	21,966	*
All Directors and Executive Officers as a Group (11 persons)	287,897(1)(3)(4)(5)(6)	1.2%
	277,816(2)	1.1%
	565,713	2.3%

* Less than 0.1%

(1) Represents shares of common stock beneficially owned as of March 1, 2012. 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)/Profit Sharing 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 1, 2012 of 24,193,184 shares.

(2) Represents options exercisable within 60 days of March 1, 2012 to purchase shares of common stock.

(3) Includes 193,584 shares held by Mr. Havner and his spouse as trustees of the Havner Family Trust. Includes 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) Includes 12,000 shares held by Mr. Friedman and his spouse as trustees of the Friedman Family Trust.

(5) Includes 425 shares held by Ms. Dunbar and her spouse as trustees of the Lilac II Trust.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Our compensation goals are to hire, retain and motivate our senior management to create long-term shareholder value. At our 2011 Annual Meeting, more than 99% 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 and that no specific changes to its executive compensation program were warranted.

2011 Executive Compensation Highlights

2011 Company Performance. Although 2011 continued to be a challenging year for commercial property owners, our management team focused on growing the company to take advantage of any turnaround in the economy and achieved solid financial results. For fiscal 2011, net income increased 33.9% over 2010, funds from operations (FFO) per share was 20.9% higher than 2010 and the company reduced its cost of capital while maintaining a conservative financial profile. In addition, by year-end, management grew the company s portfolio of properties by 25%, completing property acquisitions in 2011 totaling 5.6 million square feet, positioning the company for future growth.

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2011 Executive Compensation. In March 2011, the Compensation Committee met and considered the appropriate targets to incentivize senior management for 2011 performance in light of anticipated difficult market conditions and determined the threshold for payment of senior executive bonuses would be company achievement of targeted levels of funds available for distribution (FAD) adjusted for certain items, as described below. Based on the level of adjusted FAD achieved, potential bonus payments for 2011 performance could range from 100% to 200% of the target level. To achieve a bonus pool for payment of bonuses at the 100%, the Committee determined that adjusted 2011 FAD must exceed $102,546,000.

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. 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, 2011 FAD was also adjusted by (1) reductions in preferred distributions due to the repurchase of preferred securities, (2) income, capital and expenses incurred in connection with asset acquisitions in 2011 and (3) variance between budget and actual capital maintenance costs.

In February 2012, the Compensation Committee considered that adjusted 2011 FAD was $89.7 million. This is below the targeted level for bonus payments established in March 2011. Although the FAD target for bonus payments was not achieved, the Committee met with the non-management members of the Board and considered that key financial metrics including FFO and net income had increased substantially year-over year and that the company had reduced its cost of capital while maintaining a conservative financial profile. The Compensation Committee and the Board further considered that during 2011, management grew the company s portfolio of properties by 25%, completing acquisitions totaling 5.6 million square feet that position the company for future growth. The Committee also considered the input of the non-management members of the Board and management s ability to lead the company through a difficult economic environment. Following consideration of these factors, the Compensation Committee determined to exercise its discretion to award bonuses to executive officers at approximately 80% of the targeted bonus level. In consideration of the Board s retention goals and to further align management and shareholder interests, the Compensation Committee determined to pay a portion of the bonuses in cash and the remainder in restricted stock units that vest over six years.

The Compensation Committee s decisions with respect to 2011 compensation are discussed in detail below. To summarize the Committee s decisions:

- although the FAD target for payment of bonuses was not achieved, based on management s achievement of solid financial results and acquisitions positioning the company for future growth, the Committee exercised its discretion to pay bonuses for 2011 performance at approximately 80% of target amounts;

- 2011 bonuses for executive officers were paid a portion in cash and the remainder in restricted stock to retain and align management with shareholder interests;

- in March 2011, base salaries for executive officers were increased 10% after having been frozen since 2006 for Mr. Russell, since 2007 for Messrs. Petersen and Stokx and since 2008 for Ms. Hawthorne; and

- no stock options were awarded to executive officers during 2011 and the Committee does not anticipate making any stock option grants to executive officers during the 2012-2015 long term equity incentive program that provides for awards of restricted stock if NAV targets are achieved.

2012 Compensation Outlook

Although the Committee believes the company is well positioned to meet the challenges, the operating environment for commercial real estate in 2012 continues to be challenging. Given these expectations, the Compensation Committee met in March 2012 and made the following decisions for 2012 executive officer compensation:

executive officer base salaries were maintained at 2011 levels;

2012 bonus target amounts are set at 100% of base salary if the 100% bonus pool target is achieved;

A threshold of a 25% bonus payment was set for 2012 with additional amounts payable based on the achievement of targeted levels of 2012 FAD up to a maximum of 150% bonus payment of the target amount;

if a targeted level of FAD is achieved, individual bonuses are paid 70% based on the FAD achieved and 30% based on achieving goals related to achieving a same store NOI increase, meeting established performance targets for recently acquired properties and meeting overall leasing goals;

the Compensation Committee also set goals for the payment of additional bonus amounts to Mr. Petersen and Ms. Hawthorne for the accomplishment of goals related to increasing returns at recently acquired properties; and

the Compensation Committee established a new long-term equity incentive program for senior management that links awards of restricted stock units to achieving targeted levels of NAV increases during the four year period 2012 through 2015.

Additional details concerning Compensation Committee activities with respect to 2011 compensation and 2012 compensation targets, as well as information about our executive officer compensation policies and practices, are provided below.

PS Business Parks Executive Officer Stock Retention Requirement

Our executive officers are required to retain 20% of the shares of common stock of PS Business Parks previously acquired under the Senior Executives Long-Term Incentive Program for 2005-2008 for the duration of their employment by PS Business Parks. Similarly, executive are required to retain 20% of shares of common stock that may be awarded under the long-term equity incentive program for 2012-2015 described below 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 level, 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) potentially, short-term incentives in the form of 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 FAD, growth in Net Asset Value (NAV), same store net operating income (NOI), the performance of acquired properties and the achievement of targeted levels of property-level returns after transactional capitalized expenditures, as well as other corporate objectives, as discussed in more detail below.

Because each component of our compensation program is designed to accomplish or reward different objectives, historically and in 2011, the Compensation Committee determined the award of each component separately. Historically and in 2011, 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 25. 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 2011. For more information on the Compensation Committee and its responsibilities, see Corporate Governance and Board Matters Compensation Committee on page 7.

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 a level so that a significant portion of the total cash compensation such executives can earn is performance-based through annual incentive compensation. As a result, base salaries may not be increased for several years.

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 bi-annually for the named executive officers.

Bonuses. Our annual incentive cash bonus program provides an opportunity to reward named executive officers for the company s performance during the fiscal year, and their individual contributions to that performance and are generally based on achievement of a threshold corporate performance goal for payment of any bonus and individually established targets that determine the bonus paid to each named executive officer. These objectives generally relate to financial factors, primarily FAD, growth in same store NOI and the maintenance of targeted levels of property-level returns after transactional capitalized expenditures, and achievement of other operational and financial goals.

Target annual incentive bonus amounts are set for each named executive officer based on job responsibilities and typically range up to 100% of base salary for the chief executive officer and chief operating officer and lesser amounts for the other named executive officers, due to the increased responsibilities required of the chief executive and operating officers. 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. The Committee typically exercises this discretion to ensure that management makes decisions based on what is in the company s best interest.

Equity-Based Compensation. Equity awards of restricted stock units or stock options are long-term incentives designed to reward long-term growth in the price of and, in the case of restricted stock units, dividends paid on PS Business Parks common stock and shareholder value. Both types of equity awards help retain executives because they achieve their maximum value only if the executive continues to be employed by PS Business Parks 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.

The Compensation Committee has the discretion to award executive officers restricted stock units, stock options or a mix of both. The Compensation Committee does not set awards based on a fixed weighting between stock options and restricted stock units. However, it may determine not to award stock options or restricted stock units during certain periods. For example, the Compensation Committee has focused equity compensation for the named executive officers on awards of restricted stock units for each year and the four-year period for 2012 through 2015 under a senior management long-term equity incentive equity program. The program, described in more detail below, provides for awards of restricted stock units for the achievement of annual and a four year average target for increases in total shareholder return. No grants of stock options were made to the named executive officers in 2011 and the Committee does not expect to award any stock options to the current executive officers during the term of the senior management long-term equity incentive program for 2012-2015.

Performance-Based Restricted Stock Units and Restricted Stock

Restricted stock units and restricted stock increase in value as the value of the company s common stock and/or dividends increase and generally vest over time provided that the executive officer remains in the employ of the company. Accordingly, awards of restricted stock units or restricted stock serve the Committee s objective of retaining company executive officers and other employees and motivating them to advance the long-term interests of the company and its shareholders. They 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. No grants of restricted stock or restricted stock units were made to the named executive officers in 2011. However, in early 2012, the Committee also awarded a significant portion of the 2011 annual incentive bonus in restricted stock units in order to align this payment to the performance of acquired properties. In addition, as described in more detail below, the Committee established the 2012-2015 senior management long-term equity incentive program to provide for awards of restricted stock units based on achievement of targeted levels of increases in total shareholder return during 2012 to 2015.

Stock Options

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 2011 and the Compensation Committee does not anticipate granting stock options to any current executive officer during the four-year period, 2012 to 2015, for the senior management long-term equity incentive program.

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Equity Grant Practices

Equity grants, including grants of restricted stock or units 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 (including telephonic meetings), 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 2011, Messrs. Havner and Russell. These grants are made pursuant to the terms of the 2003 Stock Option and Incentive 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.

2011 Base Salaries. The Compensation Committee typically reviews base salaries for increases every two years. In March 2011, the Compensation Committee considered that Mr. Russell s base salary had not been increased since 2006, and Messrs. Petersen and Stokx had not had an increase since 2007 and Ms. Hawthorne since 2008. The Committee also considered the anticipated business challenges for 2011 and the recommendations of Mr. Russell. Based on its consideration of these matters, the Compensation Committee approved a 10% increase in base salaries for the named executive officers for 2011. Accordingly, Mr. Russell s base salary was set at $467,500, Mr. Petersen s at $330,000, Mr. Stokx s at $247,500 and Ms. Hawthorne s at $247,500.

2012 Base Salaries. No changes in base salaries for executive officers were considered in 2012, consistent with the Compensation Committee s practice to review base salaries every two years.

Annual Bonuses for 2011 Performance. In March 2011, the Compensation Committee established the 2011 annual bonus performance targets for each of the named executive officers. After consideration of market conditions, the company s strategic goals and input from Mr. Russell and other Board members, including the Chairman of the Board, the Compensation Committee determined that a bonus pool for 2011 bonuses to be paid at the 100% level if the company s 2011 FAD, as adjusted as described below, was at least $102,546,000. The Compensation Committee selected FAD as the key financial metric because of its importance to both the PS Business Parks senior executive team and to investors. The Compensation Committee further determined that if the corporate 2011 FAD targets were met, individual bonuses for executive officers would then be awarded based on achievement of individual leadership and performance metrics related to each named executive officer s specific job function.

Although the Compensation Committee recognized that the 2011 FAD target was challenging, it believed the goal was achievable. However, in March 2012, the Compensation Committee determined that actual 2011 FAD, as adjusted, was $89.7 million and that the FAD target for payment of bonuses had not been achieved. The Committee considered that 2011 FAD results had been impacted adversely by continued softness in the economy. The Committee further considered that despite the shortfall in FAD, 2011 net income increased 33.9% over 2010 and 2011 FFO per share was 20.9% higher than 2010. The company also reduced its cost of capital during 2011, while maintaining a conservative financial profile, and that management completed acquisitions that grew the company s portfolio of properties by 25%, adding 5.6 million square feet. As a result of these 2011 acquisitions, the company is well positioned for future growth. Finally, the company rebranded and refurbished the assets acquired in the Washington, D.C. metro area during 2010 enhancing market appeal, so that longer term leasing and operational objectives could be achieved in this important market for the company.

The Committee also considered the input of the non-management members of the Board and management s ability to lead the company through a difficult economic environment. Following consideration of these factors, the Compensation Committee determined to exercise its discretion to award bonuses to executive officers equal to approximately 80% of the amount that would have been paid if the 100% bonus target had been achieved. In consideration of the Board s retention goals and to further align management and shareholder interests, the Compensation Committee determined to pay a portion of each bonus in cash and the remainder in restricted stock units that vest in five equal annual installments beginning two years from the date of grant. Accordingly, the Compensation Committee awarded $116,875 and 4,000 restricted stock units to Mr. Russell, $87,862 and 3,000 restricted stock units to Mr. Petersen, $61,875 and 2,000 restricted stock units to Mr. Stokx and $61,875 and 2,000 restricted stock units to Ms. Hawthorne. The Chief Executive Officer did not participate in the deliberations of the Compensation Committee with respect to setting his compensation.

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Deferred Acquisition Bonus Program. The deferred acquisition bonus program provides for bonus payments based on the achievement of individual property-specific goals designed to promote growth at a property following acquisition. If the Company acquires more than one property during the year, a separate set of goals is established for each property. The goals relate to an individual property and the circumstances of that property at the time of acquisition. The goals may vary from property to property and may relate to occupancy, rental rates, or other property-specific objectives. The goals exclude the capitalized costs of the acquisition and are measured at the end of the property s stabilization period when management has completed any necessary transition activities to assimilate the property into the company s portfolio. The stabilization period is determined by a number of factors, including necessary repositioning and capital investment, and can range from several months to one, two or three years, typically.

The amount of the potential bonus pool paid is determined at the discretion of the Compensation Committee based on growth at each individual acquisition property that stabilizes during a given year and may be an amount up to 5 basis points (.0005%) of the individual property s acquisition price. If a pool is established for a newly stabilized property, the recipients and amounts paid are determined in the discretion of the chief executive officer. The chief executive officer and the chief financial officer are not eligible to participate. For 2011, Mr. Petersen was the only executive officer to receive an award under the program in the amount of $5,362, which was related to the stabilization of one acquisition portfolio.

2012 Executive Officer Annual Cash Bonus Performance Targets. In March 2012, the Compensation Committee established the 2012 annual bonus performance targets for each of the named executive officers. After consideration of market conditions, the company s strategic goals and input from Mr. Russell and other Board members, the Compensation Committee determined that 2012 bonus goals would again be based on the achievement of targeted levels of FAD, including minimizing any further declines in FAD, for the corporate component, adjusted for reductions or increases in preferred distributions related to the repurchase or issuance, respectively, of preferred securities and for income, capital and expenses incurred in connection with property acquisitions and dispositions. The Compensation Committee established a minimum bonus payment of 25% of base salary with the opportunity to earn increased bonus amounts up to 150% of base salary depending on the level of FAD achieved. The Compensation Committee selected FAD as the key financial metric because of its importance to both the PS Business Parks senior executive team and to investors.

If the corporate FAD targets are met for 2012 and the size of the bonus pool is set, individual bonuses for all named executive officers will be awarded 70% based on the FAD level achieved and 30% based on performance goals related to achieving a same store NOI increase, meeting established performance targets for recently acquired properties and meeting overall leasing goals. The Compensation Committee considers achievement of the 2012 bonus targets to be challenging, but achievable.

The Committee also determined target bonus amounts for achievement of the FAD level required for payment of a 100% bonus for 2012 performance for Mr. Russell of $467,500, for Mr. Petersen of $330,000, for Mr. Stokx of $247,500 and for Ms. Hawthorne of $247,500. As noted previously, FAD levels for payment of 25% up to 150% of the bonus target amount were also established as part of the 2012 performance bonus program, which would adjust the target bonus amount paid by the percentage ranging between 25% and 150% based on the level were achieved.

Senior Management Long-Term Equity Incentive Program for 2012 -2015. In December 2011, the Compensation Committee approved, and the Board ratified, the Senior Management Long-Term Equity Incentive Program for 2012-2015 (LTEIP). Under the program, named executive officers are eligible to receive two types of awards of restricted stock based on the achievement of targeted increases in total return (defined as growth in the company s internally calculated net asset value (NAV) together with dividend yields). Growth in NAV is primarily driven by improved performance of the same-park assets as well as acquired assets once they have completed a period of stabilization.

The first type of award under the LTEIP is an annual award following the end of each of the four years in the program, with the award subject to and based on the achievement of growth in total returns during the previous year. The second type of award, designed to encourage a long-term focus on growth in total returns, is an award based on growth in total returns during the cumulative four-year period, 2012-2015. The Committee considers four to five year total return (dividends plus growth in NAV) a better performance metric than stock-price based total return, although the Committee believes both measures ought to be comparable over the long term.

All awards under the program consist of awards of restricted stock units, representing shares of common stock, which vest over three years beginning on the date of award and conditioned on continued employment. One-third of the total number of shares available for awards under the program is allocated to annual awards and two-thirds are allocated to the awards at the end of the four-year performance period. In the event the total annual return is not met for an annual award, the shares allocated for award for such year are added to the shares that may be received if the four-year target is met.

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Annual Awards. The following is a table showing the maximum number of restricted stock units to be awarded to the group of current executive officers if the annual targeted total return is achieved for each of years 2012, 2013, 2014 and 2015 and the potential restricted stock units to be awarded upon achievement of the targets:

Award Date:	**2012-2015 Annual Target Total Returns** (annual measurement date is from 1/1 to 12/31 of each year prior to the award) **Total Shares Allocated for Annual Awards to Current NEOs** (represented by restricted stock units until vested)
March 2013	23,760
March 2014	23,760
March 2015	23,760
March 2016	23,760

Subject to achieving the targeted annual total return and continued employment, each current executive officer will be awarded the following number of restricted stock units: Joseph D. Russell, Jr.: 10,065, John W. Petersen: 5,115, Edward A. Stokx: 4,290 and Maria R. Hawthorne: 4,290. The restricted stock units vest in three equal annual installments beginning one year from the date of award.

Awards for the Four-Year Period from 2012-2015. Total return for the four-year awards is measured for the four year period January 1, 2012 to December 31, 2015, and divided by four to determine the average annual return over the measurement period. In the event the four-year total return target is achieved for the period January 1, 2012 to December 31, 2015, the maximum aggregate total number of restricted stock units available for awards to executive officers is 192,960, together with any shares added to the four-year pool because an annual target was not achieved. As described above, in the event the total return target is not met for an annual award during the program, the shares allocated for such annual award are added to the shares available for awards if the four-year targeted average total return is achieved. Awards, if any, for the four-year awards will be made in March of 2016. The restricted stock units vest in three equal installments beginning one year from the date of award.

Subject to achieving the targeted four-year average total return and continued employment, each current executive officer will be awarded the following number of restricted stock units: Joseph D. Russell, Jr.: 81,740, John W. Petersen: 41,540, Edward A. Stokx: 34,840 and Maria R. Hawthorne: 34,840. The amounts awarded would be adjusted upward for any shares allocated to annual awards that were not achieved and re-allocated to awards under the four-year pool. The restricted stock units vest in three equal annual installments beginning one year from the date of award.

The restricted stock units available for award under the 2012-2015 LTEIP are allocated among the chief executive officer and the other named executive officers in amounts ranging from 42% to 18% of the total allocation to executive officers. The percentage allocations are based on the Compensation Committee s subjective assessment of each individual s relative responsibilities and contributions to the company s NAV growth. With respect to the allocations to the named executive officers other than Mr. Russell, the committee also considered the recommendations of the chief executive officer.

Given the challenge implicit in the target goal, in the event the four-year target is not achieved, the Compensation Committee has the discretion to extend the program for a fifth year. If the four year target is achieved at the end of the fifth year, the restricted stock units awarded under the program will be reduced by 20%.

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 seven times during 2011. Mr. Russell attended at least a portion of all of the meetings. Mr. Russell did not participate in the deliberations of the Compensation Committee with respect to setting his compensation.

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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 that the Compensation Committee deems comparable (the Compensation Survey Companies). In 2011, the Compensation Survey Companies were:

Alexandria Real Estate Equities, Inc.	First Industrial Realty Trust, Inc.
BioMed Realty Trust	Franklin Street Properties Corp.
Boston Properties Inc.	Highwoods Properties, Inc.
Brandywine Realty Trust	Kilroy Realty Corporation
Corporate Office Properties Trust	Liberty Property Trust
DCT Industrial Trust Inc.	Mack Cali Realty corp.
Douglas Emmett, Inc.	Mission West Properties, Inc.
Duke Realty Corp.	ProLogis
EastGroup Properties, Inc.	SL Green Realty Corp.

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 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 PS Business Parks, L.P. (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 proposed for approval by shareholders at the 2012 Annual Meeting is 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, 2011.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

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Compensation of Executive Officers

The following table sets forth certain information concerning the compensation for 2011 paid to the company s principal executive officer, principal financial officer and the two other most highly compensated persons who were executive officers of the company on December 31, 2011 (the named executive officers). These four officers constitute all the company s executive officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards ($) (2)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	All Other Compensation (4)	Total ($)
Joseph D. Russell, Jr., President and Chief Executive Officer	2011	$ 457,665	$ 116,875				$ 14,420	$ 588,960
	2010	$ 425,790			$ 391,300	$ 572,348	$ 26,300	$ 1,415,738
	2009	$ 425,790				$ 340,550	$ 42,800	$ 809,140
John W. Petersen, Executive Vice President and Chief Operating Officer	2011	$ 323,290	$ 82,500			$ 5,362	$ 12,110	$ 423,262
	2010	$ 300,790			$ 270,900	$ 433,575	$ 17,786	$ 1,023,051
	2009	$ 300,790				$ 223,050	$ 24,804	$ 548,644
Edward A. Stokx, Executive Vice President and Chief Financial Officer	2011	$ 242,665	$ 61,875				$ 11,862	$ 316,402
	2010	$ 225,790			$ 210,700	$ 290,777	$ 16,511	$ 743,778
	2009	$ 225,790				$ 168,200	$ 21,931	$ 415,921
Maria R. Hawthorne, Executive Vice President, East Coast	2011	$ 242,612	$ 61,875				$ 11,578	$
	2010	$ 225,737			$ 240,800	$ 265,500	$ 15,872	$
	2009	$ 225,737				$ 134,868	$ 21,618	$ 316,065