

PS BUSINESS PARKS INC/CA
Form DEF 14A
March 24, 2014
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SCHEDULE 14A INFORMATION

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

(AMENDMENT NO. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

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

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

PS BUSINESS PARKS, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

Fee not required.

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

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(3) Filing Party:

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March 24, 2014

**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 2014 Annual Meeting of Shareholders. The meeting will be on Monday, April 28, 2014, at 10:00 a.m., local time, at the Westin Pasadena, 191 N. Los Robles Avenue, Pasadena, California. You may attend the meeting in person or by proxy.

Details concerning admission to the meeting and the business to be conducted are described in the notice of the annual meeting and proxy statement, which accompany this letter.

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, by following the instructions on the proxy/voting instruction card. Of course, even if you vote your shares ahead of time, you may still attend the meeting.

We appreciate your investment in PS Business Parks and look forward to seeing you at our 2014 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 2014 ANNUAL MEETING OF SHAREHOLDERS

The 2014 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 28, 2014.

Place: The Westin Pasadena, 191 N. Los Robles Avenue, Pasadena, California.

- Items of Business:**
1. To elect nine directors from the nominees named in the attached proxy statement to serve until the 2015 Annual Meeting of Shareholders;
 2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm for PS Business Parks, Inc. for the fiscal year ending December 31, 2014;
 3. To hold an advisory vote to approve executive compensation; and
 4. To consider and act upon any 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, For ratification of the appointment of Ernst & Young LLP and For the company's executive compensation. 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 6, 2014.

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 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.

By Order of the Board of Directors,

Edward A. Stokx

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Executive Vice President, Chief Financial Officer & Secretary

March 24, 2014

This notice of annual meeting and proxy statement are first being distributed and made available to shareholders on or about March 27, 2014.

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PS BUSINESS PARKS, INC.
PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS

April 28, 2014

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 2014 Annual Meeting and at any adjournment or postponement of the meeting. The 2014 Annual Meeting will be held on April 28, 2014 at 10:00 a.m., local time, at the Westin Pasadena, 191 N. Los Robles Avenue, Pasadena, 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 March 27, 2014 to holders of our common stock on March 6, 2014, the record date for our annual meeting. A copy of our Annual Report to Shareholders for the fiscal year ended December 31, 2013, which includes a copy of our 2013 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 nine 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, 2014, as set forth in Proposal 2;

To approve, in an advisory vote, executive compensation as set forth in Proposal 3; and

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

Recommendations of the Board:

The Board recommends that you vote:

FOR the election of the nine 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 2014 as set forth in Proposal 2; and

FOR the advisory vote to approve executive compensation as set forth in Proposal 3.

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 6, 2014 will be entitled to vote at the meeting, or at any adjournment or postponement of the meeting. On the record date, approximately 26,874,197 shares of the company's common stock were issued and outstanding. Each common share 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 shareholders entitled to vote at the annual meeting will be available for inspection at our executive offices during regular business hours for not less than the ten days immediately preceding the date of 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 possible ways to vote by proxy depending on how your shares are held:

By Internet Shareholders that hold their shares through a bank, broker, trustee or other nominee may submit proxies over the Internet by following the instructions on the voting instruction card if the bank, broker, trustee or other nominee has established procedures for internet voting.

By Telephone Shareholders that hold their shares through a bank, broker, trustee or other nominee may submit proxies over the telephone by following the instructions on the voting instruction card if the bank, broker, trustee or other nominee has established procedures for telephone voting.

By Mail Shareholders that hold shares directly or that hold shares through a bank, broker, trustee or other nominee may submit proxies by completing, signing and dating their proxy card or voting instruction card and mailing it in the accompanying pre-addressed postage-paid envelope.

If additional matters are presented at the annual meeting. Other than the three 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 7:00 a.m., Pacific Daylight Time, on April 24, 2014.

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 2014, (3) For approval of executive compensation, and (4) 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.

Voting Deadlines. If you hold your shares directly as a shareholder of record and wish to submit your proxy by mail, you must allow sufficient time for your mailing to be received no later than Friday, April 25, 2014. For shares you hold beneficially in the name of a bank, broker, trustee or other nominee, please refer to the proxy or voting instruction card provided by your bank, broker, trustee or nominee for the deadline to provide your voting instructions to your bank, broker, trustee or nominee.

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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 7:00 a.m., Pacific Daylight Time, on April 24, 2014. If you are the shareholder of record, you may change your vote by granting a new

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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 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 the applicable deadline specified on the proxy or voting instruction card you received from your bank, broker, trustee or nominee, 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. 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 later date for the purpose of obtaining a quorum.

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.

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. A shareholder must, however, have given notice of the intent to cumulate votes before voting starts; no shareholder has given this notice. With respect to all other matters, shareholders can cast one vote for each share of common stock registered in their name on March 6, 2014, the record date of the annual meeting.

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 as our proxy distribution agent, for which they would receive an estimated fee of \$1,000 together with normal and customary expenses.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 28, 2014: This Proxy Statement, the 2013 Annual Report including the Annual Report on Form 10-K for the year ended December 31, 2013 and a sample proxy card are available at www.psbusinessparks.com/2014proxy.html.

CORPORATE GOVERNANCE AND BOARD MATTERS

Corporate Governance Policies, Code of Ethics and Business Conduct Standards

The Board has adopted Corporate Governance Guidelines to outline its overall governance practices. The Board has also approved a code of Business Conduct Standards, applicable to directors, officers and employees, and a Directors' Code of Ethics. The Board regularly reviews its corporate governance policies in light of governmental rules and regulations, practices at other companies and investor input.

The Corporate Governance Guidelines provide that in an uncontested election of directors, each director nominee who does not receive at least a majority of the votes cast with respect to that director, must submit his or her resignation to the Board. For purpose of the Corporate Governance Guidelines, a majority means the number of votes cast for a director must exceed 50% of the votes cast with respect to the director. The Nominating/Corporate Governance Committee will then make a recommendation to the Board about whether to accept or reject the resignation or take other action. The Board will act on any such recommendation and publicly disclose its decision within 90 days from the date the election results were certified by the Inspector of Elections. If a director's resignation is accepted by the Board, the Board may fill the resulting vacancy or decrease the size of the Board in accordance with the bylaws.

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The Corporate Governance Guidelines, the Business Conduct Standards and the Directors' Code of Ethics are each available on the company's website, www.psbusinessparks.com, and a copy of each may be obtained by sending a written request to 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 Securities and Exchange Commission (SEC) and New York Stock Exchange (NYSE) requirements.

Board Leadership

We have separate individuals serving as Chairman of the Board and as Chief Executive Officer. Ronald L. Havner, Jr., has served as Chairman of the Board since March 1998. He 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. It has an approximately 42% common equity interest in the company as of March 20, 2014, comprised of approximately 27% of our outstanding common stock and 22% of our Operating Partnership's common partnership units. Mr. Havner's role as Chairman furthers his ongoing involvement with the business, and his in-depth knowledge of the company's 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 an independent director with a leadership role on the Board. The independent presiding director presides at meetings of all non-management directors in executive session without the presence of management. These meetings are held on a regular basis, generally before each regularly scheduled Board meeting and at the request of any non-management director. In addition, the independent directors meet separately at least once annually. These sessions are designed to encourage open Board discussion of any matter of interest without the Chief Executive Officer or any other members of management present. The position of independent presiding director generally rotates annually among the chairs of the standing committees of the Board. Michael V. McGee, Chair of the Nominating/Corporate Governance Committee, is the independent presiding director for meetings of the non-management directors during 2014.

Board Responsibilities and Oversight of Risk Management

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

In addition, the Board is assisted in its oversight responsibilities by the standing Board committees, which have assigned areas of oversight responsibility for various matters as described in the Committee charters and as provided in NYSE rules. For example, the Audit Committee 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.

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

Oversight of Compensation Risks. With respect to consideration of risks related to compensation, in March 2014, the Compensation Committee considered a report from management concerning its review of potential risks related to compensation policies and practices applicable to all of the company's employees. The Committee also considered management's conclusion that the company's compensation policies and practices are not reasonably likely to have a material adverse effect on our company.

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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 concluded that the incentive compensation plans did not create any significant motivation or opportunity for employees to take undue risks to achieve an incentive compensation award. Instead, management concluded that employees who are eligible for incentive compensation are properly incentivized to achieve short- and long-term company goals without creating undue risks for the company. Following completion of its review, members of our senior management discussed the results of management's compensation risk assessment with the Compensation Committee. The Compensation Committee, following discussion, reached a similar conclusion. The Committee expects to further review compensation risks from time to time.

Board Meetings

The Board meets at regularly scheduled intervals and may hold additional special meetings as necessary or desirable in furtherance of its oversight responsibilities. As described above, the non-management directors generally meet in executive session without the presence of management in connection with each regularly scheduled board meeting. During 2013, the Board held seven meetings and the Board committees held 17 meetings. During 2013, each director attended at least 75% of the meetings held by the Board and all committees of the Board on which he or she served. Directors are encouraged, but not required, to attend the annual meeting of shareholders. All directors nominated for election to the Board at the 2014 Annual Meeting attended the 2013 annual meeting, other than Robert S. Rollo who joined the Board in December 2013.

Board Orientation and Education

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

Director Stock Ownership Policy

Pursuant to the Corporate Governance Guidelines, each non-management director is encouraged to have a significant stock ownership in the company. All directors are expected, within three years of election, to own at least \$100,000 of common stock of the company, determined 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. The Board has discretion to make exceptions to the policy to provide for a transition period of service.

Committees of the Board of Directors

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

Our three standing committees are described below, and the committee members and number of meetings held in 2013 are identified in the following table:

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	Audit Committee	Compensation Committee	Nominating/Corporate Governance Committee
Director			
Jennifer Holden Dunbar	X	X	
James H. Kropp		X (Chairman)	X
Sara Grootwassink Lewis	X (Chairman)		X
Michael V. McGee		X	X (Chairman)
Gary E. Pruitt		X	
Robert Rollo*		X	X
Peter Schultz	X		
Number of meetings in 2013:	5	8	4

* Robert S. Rollo was appointed to the Compensation Committee and Nominating/Corporate Governance Committee in December 2013. No meetings were held by those committees in 2013 following his appointment.

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

Compensation Committee

The primary functions of the Compensation Committee as set forth in its charter are to (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) review with management its annual assessment of potential risks related to the company's compensation policies and practices applicable to all employees, (7) review the advisory shareholder vote on the company's executive compensation programs, (8) produce the Compensation Committee Report for inclusion in the annual proxy statement and (9) evaluate its performance annually. The Compensation Committee has not delegated any of its responsibilities to individual members of the committee or to a subcommittee of the committee, although it has the discretion to do so.

As required by the charter, during 2013, 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 2013, 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 2013, 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 2013, see the CD&A beginning on page 17.

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

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

Director Independence

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

Following its annual review of each director's independence, in February 2014, the Nominating/Corporate Governance Committee recommended to the Board and the Board determined that (1) each member of the Board, other than Ronald L. Havner, Jr. and Joseph D. Russell, Jr., is independent pursuant to the rules of the NYSE, and (2) each Audit Committee member as well as each Compensation Committee member meets the additional independence requirements of the rules of the SEC. Mr. Russell was deemed not independent because he serves as Chief Executive Officer and President of PS Business Parks. Mr. Havner was deemed not independent because he is Chairman, Chief Executive Officer and President of Public Storage. Relationships between Public Storage and PS Business Parks are described on pages 29-30.

Compensation of Directors

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

Retainers and Meeting Fees. Retainers are paid in cash quarterly and are pro-rated when a director joins the Board other than at the beginning of a calendar year. During 2013, 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 receives an additional annual fee of \$5,000.

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 NYSE on such date.

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

all vested options.

Retirement Stock Grants. 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. Directors receive any dividends paid on vested shares. At December 31, 2013, Messrs. Havner, Kropp and McGee were each entitled to receive 7,000 fully-vested shares of common stock upon retirement; Ms. Dunbar was entitled to receive 4,000 shares; Ms. Lewis was entitled to receive 3,000 shares; and Messrs. Pruitt and Schultz were each entitled to 1,000 shares. As of December 31, 2013, the value of each award of 7,000 shares was \$534,940; the value of 4,000 shares was \$305,680; the value of 3,000 shares was \$229,260; and the value of 1,000 shares was \$76,420, each based on the closing price of \$76.42 of our common stock on December 31, 2013.

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The following table presents the compensation provided by the company to its non-employee directors for the fiscal year ended December 31, 2013.

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)			\$ 17,620	\$ 12,320	\$ 29,940
Jennifer Holden Dunbar	\$ 38,500		\$ 17,620	\$ 7,040	\$ 63,160
James H. Kropp	\$ 42,000		\$ 17,620	\$ 12,320	\$ 71,940
Sara Grootwassink Lewis	\$ 48,000		\$ 17,620	\$ 5,280	\$ 70,900
Michael V. McGee	\$ 42,000				