

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011.

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-10709

**PS BUSINESS PARKS, INC.**

*(Exact name of registrant as specified in its charter)*

**California**

*(State or other jurisdiction of incorporation or organization)*

**95-4300881**

*(I.R.S. Employer Identification No.)*

**701 Western Avenue, Glendale, California 91201-2397**

*(Address of principal executive offices) (Zip Code)*

**818-244-8080**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value per share	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a Share of 7.000% Cumulative Preferred Stock, Series H, \$0.01 par value per share	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a Share of 6.875% Cumulative Preferred Stock, Series I, \$0.01 par value per share	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a Share of 6.700% Cumulative Preferred Stock, Series P, \$0.01 par value per share	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a Share of 6.875% Cumulative Preferred Stock, Series R, \$0.01 par value per share	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a Share of 6.450% Cumulative Preferred Stock, Series S, \$0.01 par value per share	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

*(Title of class)*

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,026,372,826 based on the closing price as reported on that date.

Number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of February 20, 2012 (the latest practicable date): 24,129,684.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2012 are incorporated by reference into Part III of this Annual Report on Form 10-K.

## PART I

### ITEM 1. BUSINESS

#### Forward-Looking Statements

Forward-looking statements are made throughout this Annual Report on Form 10-K. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “may,” “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates,” “intends,” and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including but not limited to: (a) changes in general economic and business conditions; (b) decreases in rental rates or increases in vacancy rates/failure to renew or replace expiring leases; (c) tenant defaults; (d) the effect of the recent credit and financial market conditions; (e) our failure to maintain our status as a REIT; (f) the economic health of our tenants; (g) increases in operating costs; (h) casualties to our properties not covered by insurance; (i) the availability and cost of capital; (j) increases in interest rates and its effect on our stock price; (k) other factors discussed under the heading “Item 1A. Risk Factors”. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements, except as required by law.

#### The Company

PS Business Parks, Inc. (“PSB”) is a fully-integrated, self-advised and self-managed real estate investment trust (“REIT”) that owns, operates acquires, and develops commercial properties, primarily multi-tenant flex, office and industrial space. PS Business Parks, L.P. (the “Operating Partnership”) is a California limited partnership, which owns directly or indirectly substantially all of our assets and through which we conduct substantially all of our business. PSB is the sole general partner of the Operating Partnership and, as of December 31, 2011, owned 76.8% of the common partnership units. The remaining common partnership units are owned by Public Storage (“PS”). PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references to “the Company,” “we,” “us,” “our,” and similar references mean PS Business Parks, Inc. and its subsidiaries, including the Operating Partnership.

As of December 31, 2011, the Company owned and operated 27.2 million rentable square feet of commercial space, comprising 102 business parks, located in eight states: Arizona, California, Florida, Maryland, Oregon, Texas, Virginia and Washington. The Company focuses on owning concentrated business parks as these parks provide the Company with the greatest flexibility to meet its customer needs. The Company also manages 1.3 million rentable square feet on behalf of PS.

*History of the Company:* The Company was formed in 1990 as a California corporation under the name Public Storage Properties XI, Inc. In a March 17, 1998 merger with American Office Park Properties, Inc. (“AOPP”) (the “Merger”), the Company acquired the commercial property business previously operated by AOPP and was renamed “PS Business Parks, Inc.” Prior to the Merger in January, 1997, AOPP was reorganized to succeed to the commercial property business of PS, becoming a fully integrated, self-advised and self-managed REIT.

In 2011 and 2010, the Company acquired 7.9 million square feet for an aggregate purchase price of \$855.2 million. The table below reflects the assets acquired during the years ended December 31, 2011 and 2010 (*in thousands*):

<u>Property</u>	<u>Date Acquired</u>	<u>Location</u>	<u>Purchase Price</u>	<u>Square Feet</u>	<u>Occupancy at December 31, 2011</u>
Northern California Portfolio .....	December, 2011	East Bay, California	\$ 520,000	5,334	82.4%
Royal Tech .....	October, 2011	Las Colinas, Texas	2,835	80	0.0% (1)
MICC — Center 22 .....	August, 2011	Miami, Florida	3,525	46	33.3%
Warren Building .....	June, 2011	Tysons Corner, Virginia	27,100	140	69.5%
<b>Total 2011 Acquisitons</b> .....			<u>\$ 553,460</u>	<u>5,600</u>	80.5%
Westpark Business Campus .....	December, 2010	Tysons Corner, Virginia	\$ 140,000	735	65.0%
Tysons Corporate Center .....	July, 2010	Tysons Corner, Virginia	35,400	270	65.9%
Parklawn Business Park .....	June, 2010	Rockville, Maryland	23,430	232	83.0%
Austin Flex Portfolio .....	April, 2010	Austin, Texas	42,900	704	92.0%
Shady Grove Executive Center .....	March, 2010	Rockville, Maryland	60,000	350	88.0%
<b>Total 2010 Acquisitons</b> .....			<u>301,730</u>	<u>2,291</u>	79.1%
<b>Total</b> .....			<u><u>\$ 855,190</u></u>	<u><u>7,891</u></u>	80.1%

(1) As of January 1, 2012, the building was 100.0% leased to a single user.

In August, 2011, the Company completed the sale of Westchase Corporate Park, a 177,000 square foot flex park consisting of 13 buildings in Houston, Texas, for a gross sales price of \$9.8 million, resulting in a net gain of \$2.7 million.

In addition to the 2010 acquisitions, during 2010, the Company completed construction of a new building within its Miami International Commerce Center (“MICC”) in Miami, Florida, which added 75,000 square feet of rentable small tenant industrial space. In January, 2010, the Company completed the sale of a 131,000 square foot office building located in Houston, Texas. The gross sales price was \$10.0 million, resulting in a net gain of \$5.2 million.

In 2009, the Company sold 3.4 acres of land held for development in Portland, Oregon, for a gross sales price of \$2.7 million, resulting in a net gain of \$1.5 million. The Company made no acquisitions during the years ended December 31, 2009 and 2008.

In 2007, the Company acquired three business parks comprising 870,000 square feet for an aggregate cost of \$140.6 million in Redmond, Washington, Santa Clara, California and Fairfax, Virginia.

From 1998 through 2006, the Company acquired 14.9 million square feet of commercial space, developed an additional 500,000 square feet and sold 1.9 million square feet along with some parcels of land.

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its taxable year ended December 31, 1990. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the net income that is currently distributed to its shareholders.

The Company’s principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2397. The Company’s telephone number is (818) 244-8080. The Company maintains a website with the address [www.psbusinessparks.com](http://www.psbusinessparks.com). The information contained on the Company’s website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K. The Company makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission.

*Business of the Company:* The Company is in the commercial property business, with 102 business parks consisting of multi-tenant flex, industrial and office space. The Company owns 14.7 million square feet of flex space. The Company defines “flex” space as buildings that are configured with a combination of warehouse and office space and can be designed to fit a wide variety of uses. The warehouse component of the flex space has a number of uses including light manufacturing and assembly, storage and warehousing, showroom, laboratory, distribution and research and development activities. The office component of flex space is complementary to the

warehouse component by enabling businesses to accommodate management and production staff in the same facility. The Company owns 7.5 million square feet of industrial space that has characteristics similar to the warehouse component of the flex space as well as ample dock space. In addition, the Company owns 5.0 million square feet of low-rise office space, generally either in business parks that combine office and flex space or in submarkets where the economics of the market demand an office build-out.

The Company's commercial properties typically consist of business parks with low-rise buildings, ranging from one to 48 buildings per park, located on parcels of various sizes and comprising from approximately 12,000 to 3.3 million aggregate square feet of rentable space. Facilities are managed through either on-site management or offices central to the facilities. Parking is generally open but in some instances is covered. The ratio of parking spaces to rentable square feet ranges from two to six per thousand square feet depending upon the use of the property and its location. Office space generally requires a greater parking ratio than most industrial uses. The Company may acquire properties that do not have these characteristics.

The tenant base for the Company's facilities is diverse. The portfolio can be bifurcated into those facilities that service small to medium-sized businesses and those that service larger businesses. Approximately 34.9% of in-place rents from the portfolio are derived from facilities that serve small to medium-sized businesses. A property in this facility type is typically divided into units ranging in size from 500 to 4,999 square feet and leases generally range from one to three years. The remaining 65.1% of in-place rents from the portfolio are derived from facilities that serve larger businesses, with units greater than or equal to 5,000 square feet. The Company also has several tenants that lease space in multiple buildings and locations. The U.S. Government is the largest tenant with multiple leases encompassing approximately 829,000 square feet or 6.5% of the Company's annualized rental income.

The Company currently owns properties in eight states and it may expand its operations to other states or reduce the number of states in which it operates. Properties are acquired for both income and potential capital appreciation; there is no limitation on the amount that can be invested in any specific property. Although there are no restrictions on our ability to expand our operations into foreign markets, we currently operate solely within the United States and have no foreign operations.

The Company owns land which may be used for the development of commercial properties. The Company owns approximately 6.4 acres of land in Northern Virginia, 11.5 acres in Portland, Oregon and 10.0 acres in Dallas, Texas as of December 31, 2011.

### **Operating Partnership**

The properties in which the Company has an equity interest generally are owned by the Operating Partnership. Through this organizational structure, the Company has the ability to acquire interests in additional properties in transactions that could defer the contributors' tax consequences by causing the Operating Partnership to issue equity interests in return for interests in properties.

The Company is the sole general partner of the Operating Partnership. As of December 31, 2011, the Company owned 76.8% of the common partnership units of the Operating Partnership, and the remainder of such common partnership units were owned by PS. The common units owned by PS may be redeemed by PS from time to time, subject to the provisions of our charter, for cash or, at our option, shares of our common stock on a one-for-one basis. Also as of December 31, 2011, in connection with the Company's issuance of publicly traded Cumulative Preferred Stock, the Company owned 23.9 million preferred units of the Operating Partnership of various series with an aggregate redemption value of \$598.5 million with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 6.700% to 7.375% Cumulative Preferred Stock of the Company. In addition, as of December 31, 2011, the Operating Partnership had outstanding 223,300 units of its 7.125% Series N preferred partnership units that are owned by third parties with an aggregate redemption value of \$5.6 million. The Operating Partnership has the right to redeem each series of preferred units held by these third parties on or after the fifth anniversary of the issuance date of the series at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. Each series of preferred units is exchangeable for shares of a corresponding series of the Company's Cumulative Redeemable Preferred Stock on or after the tenth anniversary of the date of

issuance at the option of the Operating Partnership or a majority of the holders of the applicable series of preferred units.

As the general partner of the Operating Partnership, the Company has the exclusive responsibility under the Operating Partnership Agreement to manage and conduct the business of the Operating Partnership. The Board of Directors directs the affairs of the Operating Partnership by managing the Company's affairs. The Operating Partnership will be responsible for, and pay when due, its share of all administrative and operating expenses of the properties it owns.

The Company's interest in the Operating Partnership entitles it to share in cash distributions from, and the profits and losses of, the Operating Partnership in proportion to the Company's economic interest in the Operating Partnership (apart from tax allocations of profits and losses to take into account pre-contribution property appreciation or depreciation). The Company since 1998 has paid per share dividends on its common and preferred stock that track, on a one-for-one basis, the amount of per unit cash distributions the Company receives from the Operating Partnership in respect of the common and preferred partnership units in the Operating Partnership that are owned by the Company.

### **Cost Allocation and Administrative Services**

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PS for certain administrative services. These services include investor relations, legal, corporate tax and information systems. Under this agreement, costs are allocated to the Company in accordance with its proportionate share of these costs. These allocated costs totaled \$442,000, \$543,000 and \$372,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

### **Common Officers and Directors with PS**

Ronald L. Havner, Jr., Chairman of the Company, is also the Chairman of the Board, Chief Executive Officer and President of PS. Gary E. Pruitt, an independent director of the Company is also a trustee of PS. The Company engages additional executive personnel who render services exclusively for the Company. However, it is expected that certain officers of PS will continue to render services for the Company as requested pursuant to the cost sharing and administrative services agreement.

### **Property Management**

The Company manages commercial properties owned by PS, which are generally adjacent to self-storage facilities, for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs. The property management contract with PS is for a seven-year term with the agreement automatically extending for an additional one-year period upon each one-year anniversary of its commencement (unless cancelled by either party). Either party can give notice of its intent to cancel the agreement upon expiration of its current term. Management fee revenue derived from this management contract with PS totaled \$684,000, \$672,000 and \$698,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

PS also provides property management services for the self-storage component of two assets owned by the Company. These self-storage facilities, located in Palm Beach County, Florida, operate under the "Public Storage" name. Either the Company or PS can cancel the property management contract upon 60 days notice. Management fee expenses under the contract were \$52,000, \$48,000 and \$50,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

### **Management**

Joseph D. Russell, Jr. leads the Company's senior management team. Mr. Russell is President and Chief Executive Officer of the Company. The Company's senior management includes: John W. Petersen, Executive Vice President and Chief Operating Officer; Edward A. Stokx, Executive Vice President and Chief Financial Officer; Maria R. Hawthorne, Executive Vice President, East Coast; Trenton A. Groves, Vice President and Corporate Controller; Mike Van Etten, Vice President of Construction Management; Coby A. Holley,

Vice President (Pacific Northwest Division); Robin E. Mather, Vice President (Southern California Division); William A. McFaul, Vice President (Washington Metro Division); Ross K. Parkin, Vice President, Acquisitions and Dispositions; Eddie F. Ruiz, Vice President and Director of Facilities; Viola I. Sanchez, Vice President (Southeast Division); and David A. Vicars, Vice President (Midwest Division).

## **REIT Structure**

If certain detailed conditions imposed by the Code and the related Treasury Regulations are met, an entity, such as the Company, that invests principally in real estate and that otherwise would be taxed as a corporation may elect to be treated as a REIT. The most important consequence to the Company of being treated as a REIT for federal income tax purposes is that the Company can deduct dividend distributions (including distributions on preferred stock) to its shareholders, thus effectively eliminating the “double taxation” (at the corporate and shareholder levels) that typically results when a corporation earns income and distributes that income to shareholders in the form of dividends.

The Company believes that it has operated, and intends to continue to operate, in such a manner as to qualify as a REIT under the Code, but no assurance can be given that it will at all times so qualify. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the taxable income that is distributed to its shareholders.

## **Operating Strategy**

The Company believes its operating, acquisition and finance strategies combined with its diversified portfolio produces a low risk, stable growth business model. The Company’s primary objective is to grow shareholder value. Key elements of the Company’s growth strategy include:

*Maximize Net Cash Flow of Existing Properties:* The Company seeks to maximize the net cash flow generated by its properties by (i) maximizing average occupancy rates, (ii) achieving the highest possible levels of realized monthly rents per occupied square foot and (iii) controlling its operating cost structure by improving operating efficiencies and economies of scale. The Company believes that its experienced property management personnel and comprehensive systems combined with increasing economies of scale will enhance the Company’s ability to meet these goals. The Company seeks to increase occupancy rates and realized monthly rents per square foot by providing its field personnel with incentives to lease space to higher credit tenants and to maximize the return on investment in each lease transaction. The Company seeks to maximize its cash flow by controlling capital expenditures associated with re-leasing space by acquiring and owning properties with easily reconfigured space that appeal to a wide range of tenants.

*Focus on Targeted Markets:* The Company intends to continue investing in markets that have characteristics which enable them to be competitive economically. The Company believes that markets with some combination of above average population growth, job growth, education levels and personal income will produce better overall economic returns. The Company targets individual properties in those markets that are close to critical infrastructure, middle to high income housing, universities and have easy access to major transportation arteries.

*Reduce Capital Expenditures and Increase Occupancy Rates by Providing Flexible Properties and Attracting a Diversified Tenant Base:* By focusing on properties with easily reconfigurable space, the Company believes it can offer facilities that appeal to a wide range of potential tenants, which aids in reducing the capital expenditures associated with re-leasing space. The Company believes this property flexibility also allows it to better serve existing tenants by accommodating their expansion and contraction needs. In addition, the Company believes that a diversified tenant base and property flexibility helps it maintain occupancy rates during periods when market demand is weak, by enabling it to attract a greater number of potential users to its space.

*Provide Superior Property Management:* The Company seeks to provide a superior level of service to its tenants in order to achieve high occupancy and rental rates, as well as minimal customer turnover. The Company’s property management offices are primarily located on-site or regionally located, providing tenants with convenient access to management and helping the Company maintain its properties and convey a sense of quality, order and security. The Company has significant experience in acquiring properties managed by others

and thereafter improving tenant satisfaction, occupancy levels, renewal rates and rental income by implementing established tenant service programs.

## **Financing Strategy**

The Company's primary objective in its financing strategy is to maintain financial flexibility and a low risk capital structure. Key elements of this strategy are:

*Retain Operating Cash Flow:* The Company seeks to retain significant funds (after funding its distributions and capital improvements) for additional investments. During the years ended December 31, 2011 and 2010, the Company distributed 37.4% and 45.2%, respectively, of its funds from operations ("FFO") to common shareholders/unit holders. FFO is computed in accordance with the White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). The White Paper defines FFO as net income, computed in accordance with U.S. generally accepted accounting principles ("GAAP"), before depreciation, amortization, gains or losses on asset dispositions, net income allocable to noncontrolling interests — common units, net income allocable to restricted stock unit holders and nonrecurring items. FFO is a non-GAAP financial measure and should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of operating performance as it does not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs and could materially impact the Company's results of operations. Other REITs may use different methods for calculating FFO and, accordingly, the Company's FFO may not be comparable to other real estate companies' funds from operations. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Non-GAAP Supplemental Disclosure Measure: Funds from Operations," for a reconciliation of FFO and net income allocable to common shareholders and for information on why the Company presents FFO.

*Perpetual Preferred Stock/Units:* The primary source of leverage in the Company's capital structure is perpetual preferred stock or equivalent preferred units in the Operating Partnership. This method of financing eliminates interest rate and refinancing risks because the dividend rate is fixed and the stated value or capital contribution is not required to be repaid. In addition, the consequences of defaulting on required preferred distributions is less severe than with debt. The preferred shareholders may elect two additional directors if six quarterly distributions go unpaid, whether or not consecutive.

*Debt Financing:* The Company, from time to time, has used debt financing to facilitate acquisitions. The primary source of debt the Company has historically relied upon to provide short-term capital is its \$250.0 million unsecured line of credit (the "Credit Facility"). In addition, during 2011, in connection with its \$520.0 million portfolio acquisition in Northern California, the Company obtained a \$250.0 million unsecured three-year term loan and assumed a \$250.0 million mortgage note.

*Access to Capital:* The Company targets a minimum ratio of FFO to combined fixed charges and preferred distributions paid of 3.0 to 1.0. Fixed charges include interest expense. Preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unit holders. For the year ended December 31, 2011, the FFO to combined fixed charges and preferred distributions paid ratio was 4.0 to 1.0, excluding the issuance costs related to the redemption of preferred equity. The Company believes that its financial position will enable it to access capital to finance its future growth. Subject to market conditions, the Company may add leverage to its capital structure. Throughout this Form 10-K, we use the term "preferred equity" to mean both the preferred stock issued by the Company (including the depositary shares representing interests in that preferred stock) and the preferred partnership units issued by the Operating Partnership and the term "preferred distributions" to mean dividends and distributions on the preferred stock and preferred partnership units.

## **Competition**

Competition in the market areas in which many of the Company's properties are located is significant and has from time to time reduced the occupancy levels and rental rates of, and increased the operating expenses of, certain of these properties. Competition may be accelerated by any increase in availability of funds for

investment in real estate. Barriers to entry are relatively low for those with the necessary capital and the Company competes for property acquisitions and tenants with entities that have greater financial resources than the Company. Sublease space and unleased developments are expected to continue to provide competition among operators in certain market areas in which the Company operates. While the Company will have to respond to market demands, management believes that the combination of its ability to offer a variety of options within its business parks and the Company's financial stability provides it with an opportunity to compete favorably in its markets.

The Company's properties compete for tenants with similar properties located in its markets primarily on the basis of location, rent charged, services provided and the design and condition of improvements. The Company believes it possesses several distinguishing characteristics that enable it to compete effectively in the flex, office and industrial space markets. The Company believes its personnel are among the most experienced in these real estate markets. The Company's facilities are part of a comprehensive system encompassing standardized procedures and integrated reporting and information networks. The Company believes that the significant operating and financial experience of its executive officers and directors combined with the Company's capital structure, national investment scope, geographic diversity and economies of scale should enable the Company to compete effectively.

### **Investments in Real Estate Facilities**

As of December 31, 2011, the Company owned and operated 27.2 million rentable square feet comprised of 102 business parks in eight states compared to 21.8 million rentable square feet at December 31, 2010.

### **Summary of Business Model**

The Company has a diversified portfolio. It is diversified geographically in eight states and has a diversified customer mix by size and industry concentration. The Company believes that this diversification combined with a conservative financing strategy, focus on markets with strong demographics for growth and our operating strategy gives the Company a business model that mitigates risk and provides strong long-term growth opportunities.

### **Restrictions on Transactions with Affiliates**

The Company's Bylaws provide that the Company may engage in transactions with affiliates provided that a purchase or sale transaction with an affiliate is (i) approved by a majority of the Company's independent directors and (ii) fair to the Company based on an independent appraisal or fairness opinion.

### **Borrowings**

As of December 31, 2011, the Company had outstanding mortgage notes payable of \$282.1 million compared to \$51.5 million at December 31, 2010. The increase in outstanding mortgage notes payable was due to the assumption of a \$250.0 million mortgage note related to the Northern California Portfolio acquisition in December, 2011. See Notes 5 and 6 to the consolidated financial statements for a summary of the Company's outstanding borrowings as of December 31, 2011.

On August 3, 2011, the Company modified the terms of its Credit Facility with Wells Fargo Bank. The modification of the Credit Facility increased the borrowing limit to \$250.0 million and extended the expiration to August 1, 2015. The modified rate of interest charged on borrowings is equal to a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 1.00% to LIBOR plus 1.85% depending on the Company's credit ratings. Currently, the Company's rate under the Credit Facility is LIBOR plus 1.10%. In addition, the Company is required to pay an annual facility fee ranging from 0.15% to 0.45% of the borrowing limit depending on the Company's credit ratings (currently 0.15%). As of December 31, 2011, the Company had \$185.0 million outstanding on the Credit Facility at an interest rate of 1.41%. Subsequent to December 31, 2011, the Company repaid \$85.0 million on the Credit Facility reducing the outstanding balance to \$100.0 million as of February 24, 2012. The Company had \$93.0 million outstanding on the Credit Facility at an interest rate of 2.11% at December 31, 2010. The Company had \$1.1 million and \$356,000 of unamortized commitment fees as of



December 31, 2011 and 2010, respectively. The Credit Facility requires the Company to meet certain covenants, with which the Company was in compliance at December 31, 2011 and 2010. Interest on outstanding borrowings is payable monthly.

As described in Note 3, in connection with the Northern California Portfolio acquisition, the Company entered into a term loan on December 20, 2011 with Wells Fargo Bank, National Association, as Administrative Agent and the lenders named therein (the "Term Loan"). Pursuant to the Term Loan, the Company borrowed \$250.0 million for a three year term through December 20, 2014. However, the maturity date of the Term Loan Agreement can be extended by one year at the Company's election. Interest on the amounts borrowed under the Term Loan will accrue based on an applicable rate ranging from LIBOR plus 1.15% to LIBOR plus 2.25% depending on the Company's credit ratings. Currently, the Company's rate under the Term Loan is LIBOR plus 1.20% (1.50% at December 31, 2011). The Company had \$729,000 of unamortized commitment fees as of December 31, 2011. The covenants and events of default contained in the Credit Facility are incorporated into the Term Loan by reference, and the Term Loan is cross-defaulted to the Credit Facility. The Term Loan can be repaid in full or part prior to its maturity without penalty.

On February 9, 2011, the Company entered into an agreement with PS to borrow \$121.0 million with a maturity date of August 9, 2011 at an interest rate of LIBOR plus 0.85%. The Company repaid, in full, the note payable to PS upon maturity.

The Company has broad powers to borrow in furtherance of the Company's objectives. The Company has incurred in the past, and may incur in the future, both short-term and long-term indebtedness to increase its funds available for investment in real estate, capital expenditures and distributions.

## **Employees**

As of December 31, 2011, the Company employed 145 individuals, primarily personnel engaged in property operations.

## **Insurance**

The Company believes that its properties are adequately insured. Facilities operated by the Company have historically been covered by comprehensive insurance, including fire, earthquake, liability and extended coverage from nationally recognized carriers.

## **Environmental Matters**

Compliance with laws and regulations relating to the protection of the environment, including those regarding the discharge of material into the environment, has not had any material effect upon the capital expenditures, earnings or competitive position of the Company.

Substantially all of the Company's properties have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any probable or reasonably possible environmental costs that management believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any potentially material environmental liability.

## **ITEM 1A. RISK FACTORS**

In addition to the other information in our Annual Report on Form 10-K, you should consider the risks described below that we believe may be material to investors in evaluating the Company. This section contains forward-looking statements, and in considering these statements, you should refer to the qualifications and limitations on our forward-looking statements that are described in Item 1, "Business — Forward-Looking Statements."

**Since our business consists primarily of acquiring and operating real estate, we are subject to the risks related to the ownership and operation of real estate that can adversely impact our business and financial condition.**

*The value of our investments may be reduced by general risks of real estate ownership:* Since we derive substantially all of our income from real estate operations, we are subject to the general risks of acquiring and owning real estate-related assets, including:

- changes in the national, state and local economic climate and real estate conditions, such as oversupply of or reduced demand for commercial real estate space and changes in market rental rates;
- how prospective tenants perceive the attractiveness, convenience and safety of our properties;
- difficulties in consummating and financing acquisitions and developments on advantageous terms and the failure of acquisitions and developments to perform as expected;
- our ability to provide adequate management, maintenance and insurance;
- natural disasters, such as earthquakes, hurricanes and floods, which could exceed the aggregate limits of our insurance coverage;
- the expense of periodically renovating, repairing and re-letting spaces;
- the impact of environmental protection laws;
- compliance with federal, state, and local laws and regulations;
- increasing operating and maintenance costs, including property taxes, insurance and utilities, if these increased costs cannot be passed through to tenants;
- adverse changes in tax, real estate and zoning laws and regulations;
- increasing competition from other commercial properties in our market;
- tenant defaults and bankruptcies;
- tenants' right to sublease space; and
- concentration of properties leased to non-rated private companies with uncertain financial strength.

Certain significant costs, such as mortgage payments, real estate taxes, insurance and maintenance, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

If our properties do not generate sufficient income to meet operating expenses, including any debt service, tenant improvements, lease commissions and other capital expenditures, we may have to borrow additional amounts to cover fixed costs, and we may have to reduce our distributions to shareholders.

*There is significant competition among commercial properties:* Many other commercial properties compete with our properties for tenants. Some of the competing properties may be newer and better located than our properties. Competition in the market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. We also expect that new properties will be built in our markets. In addition, we compete with other buyers, many of which are larger than us, for attractive commercial properties. Therefore, we may not be able to grow as rapidly as we would like.

*We may encounter significant delays and expense in re-letting vacant space, or we may not be able to re-let space at existing rates, in each case resulting in losses of income:* When leases expire, we will incur expenses in retrofitting space and we may not be able to re-lease the space on the same terms. Certain leases provide tenants with the right to terminate early if they pay a fee. As of December 31, 2011, our properties generally had lower vacancy rates than the average for the markets in which they are located, and leases accounting for 23.2% of our annualized rental income are scheduled to expire in 2012. While we have estimated our cost of renewing leases

that expire in 2012, our estimates could be wrong. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce our distributions to shareholders.

*Tenant defaults and bankruptcies may reduce our cash flow and distributions:* We may have difficulty collecting from tenants in default, particularly if they declare bankruptcy. This could affect our cash flow and our ability to fund distributions to shareholders. Since many of our tenants are non-rated private companies, this risk may be enhanced. There is inherent uncertainty in a tenant's ability to continue paying rent if they are in bankruptcy.

*We may be adversely affected if casualties to our properties are not covered by insurance:* We could suffer uninsured losses or losses in excess of our insurance policy limits for occurrences such as earthquakes or hurricanes that adversely affect us or even result in loss of the property. Approximately 41.0% of our properties are located in California and are generally in areas that are subject to risks of earthquake related damage. We might still remain liable on any mortgage debt or other unsatisfied obligations related to that property.

*The illiquidity of our real estate investments may prevent us from adjusting our portfolio to respond to market changes:* There may be delays and difficulties in selling real estate. Therefore, we cannot easily change our portfolio when economic conditions change. Also, tax laws limit a REIT's ability to sell properties held for less than four years.

*We may be adversely affected by changes in laws:* Increases in income and service taxes may reduce our cash flow and ability to make expected distributions to our shareholders. Our properties are also subject to various federal, state and local regulatory requirements, such as state and local fire and safety codes. If we fail to comply with these requirements, governmental authorities could fine us or courts could award damages against us. We believe our properties comply with all significant legal requirements. However, these requirements could change in a way that would reduce our cash flow and ability to make distributions to shareholders.

*We may incur significant environmental remediation costs:* As an owner and operator of real properties, under various federal, state and local environmental laws, we are required to clean up spills or other releases of hazardous or toxic substances on or from our properties. Certain environmental laws impose liability whether or not the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. In some cases, liability may not be limited to the value of the property. The presence of these substances, or the failure to properly remediate any resulting contamination, whether from environmental or microbial issues, also may adversely affect our ability to sell, lease, operate, or encumber our facilities for purposes of borrowing.

We have conducted preliminary environmental assessments of most of our properties (and conduct these assessments in connection with property acquisitions) to evaluate the environmental condition of, and potential environmental liabilities associated with, our properties. These assessments generally consist of an investigation of environmental conditions at the property (not including soil or groundwater sampling or analysis), as well as a review of available information regarding the site and publicly available data regarding conditions at other sites in the vicinity. In connection with these property assessments, our operations and recent property acquisitions, we have become aware that prior operations or activities at some properties or from nearby locations have or may have resulted in contamination to the soil or groundwater at these properties. In circumstances where our environmental assessments disclose potential or actual contamination, we may attempt to obtain indemnifications and, in appropriate circumstances, we obtain limited environmental insurance in connection with the properties acquired, but we cannot assure you that such protections will be sufficient to cover actual future liabilities nor that our assessments have identified all such risks. Although we cannot provide any assurance, based on the preliminary environmental assessments, we are not aware of any environmental contamination of our facilities material to our overall business, financial condition or results of operations.

There has been an increasing number of claims and litigation against owners and managers of rental properties relating to moisture infiltration, which can result in mold or other property damage. When we receive a complaint concerning moisture infiltration, condensation or mold problems and/or become aware that an air quality concern exists, we implement corrective measures in accordance with guidelines and protocols we have developed with the assistance of outside experts. We seek to work proactively with our tenants to resolve

moisture infiltration and mold-related issues, subject to our contractual limitations on liability for such claims. However, we can give no assurance that material legal claims relating to moisture infiltration and the presence of, or exposure to, mold will not arise in the future.

*Property taxes can increase and cause a decline in yields on investments:* Each of our properties is subject to real property taxes, which could increase in the future as property tax rates change and as our properties are assessed or reassessed by tax authorities. Recent local government shortfalls in tax revenue may cause pressure to increase tax rates or assessment levels or impose new taxes. Such increases could adversely impact our profitability.

*We must comply with the Americans with Disabilities Act and fire and safety regulations, which can require significant expenditures:* All our properties must comply with the Americans with Disabilities Act and with related regulations (the “ADA”). The ADA has separate compliance requirements for “public accommodations” and “commercial facilities,” but generally requires that buildings be made accessible to persons with disabilities. Various state laws impose similar requirements. A failure to comply with the ADA or similar state laws could lead to government imposed fines on us and/or litigation, which could also involve an award of damages to individuals affected by the non-compliance. In addition, we must operate our properties in compliance with numerous local fire and safety regulations, building codes, and other land use regulations. Compliance with these requirements can require us to spend substantial amounts of money, which would reduce cash otherwise available for distribution to shareholders. Failure to comply with these requirements could also affect the marketability of our real estate facilities.

*We incur liability from tenant and employment-related claims:* From time to time we have to make monetary settlements or defend actions or arbitration to resolve tenant or employment-related claims and disputes.

**Global economic conditions adversely affect our business, financial condition, growth and access to capital.**

There continues to be global economic uncertainty, elevated levels of unemployment, reduced levels of economic activity, and it is uncertain as to when economic conditions will improve. These negative economic conditions in the markets where we operate facilities, and other events or factors that adversely affect demand for commercial real estate, could continue to adversely affect our business. To the extent that turmoil in the financial markets returns or intensifies, it has the potential to materially affect the value of our properties, the availability or the terms of financing and may impact the ability of our customers to enter into new leasing transactions or satisfy rental payments under existing leases. The uncertainty and pace of an economic recovery could also affect our operating results and financial condition as follows:

*Debt and Equity Markets:* Our results of operations and share price are sensitive to volatility in the credit markets. The commercial real estate debt markets have experienced significant volatility as a result of various factors, including the tightening of underwriting standards by lenders and credit rating agencies and the continued erosion of operating fundamentals of assets pledged as collateral. Credit spreads for major sources of capital widened significantly as investors have demanded a higher risk premium. This has resulted in lenders increasing the cost for debt financing. Should the overall cost of borrowings increase, either by increases in the index rates or by increases in lender spreads, we will need to factor such increases into the economics of our acquisitions. In addition, the state of the debt markets could have an effect on the overall amount of capital being invested in real estate, which may result in price or value decreases of real estate assets and affect our ability to raise capital.

Our ability to issue preferred shares or other sources of capital, such as borrowing, has been in the past, and may in the future, be adversely affected by challenging credit market conditions. The issuance of perpetual preferred securities historically has been a significant source of capital to grow our business. We believe that we have sufficient working capital and capacity under our credit facilities and our retained cash flow from operations to continue to operate our business as usual and meet our current obligations. However, if we were unable to issue preferred shares or borrow at reasonable rates, that could limit the earnings growth that might otherwise result from the acquisition and development of real estate facilities.

*Valuations:* Market volatility has made the valuation of our properties more difficult. There may be significant uncertainty in the valuation, or in the stability of the value, of our properties, which could result in a substantial decrease in the value of our properties. As a result, we may not be able to recover the carrying amount of our properties, which may require us to recognize an impairment charge in earnings.

**The acquisition of existing properties is a significant component of our long-term growth strategy, and acquisitions of existing properties are subject to risks that may adversely affect our growth and financial results.**

We acquire existing properties, either in individual transactions or portfolios offered by other commercial real estate owners. In addition to the general risks related to real estate described above, we are also subject to the following risks which may jeopardize our realization of benefits from acquisitions.

*Any failure to manage acquisitions and other significant transactions to achieve anticipated results and to successfully integrate acquired operations into our existing business could negatively impact our financial results:* To fully realize anticipated earnings from an acquisition, we must successfully integrate the property into our operating platform. Failures or unexpected circumstances in the integration process, such as a failure to maintain existing relationships with tenants and employees due to changes in processes, standards, or compensation arrangements, or circumstances we did not detect during due diligence, could jeopardize realization of the anticipated earnings.

During 2011, we acquired 5.6 million square feet for an aggregate purchase price of \$553.5 million. We continue to seek to acquire and develop flex, industrial and office properties where they meet our criteria all of which we believe will enhance our future financial performance and the value of our portfolio. Our belief, however, is subject to risks, uncertainties and other factors, many of which are forward-looking and are uncertain in nature or are beyond our control, including the risks that our acquisitions and developments may not perform as expected, that we may be unable to quickly integrate new acquisitions and developments into our existing operations, and that any costs to develop projects or redevelop acquired properties may exceed estimates. As of December 31, 2011, the aggregate occupancy of the assets acquired in 2011 was 80.5%. If the Company is unable to lease the vacant square footage of these properties in a reasonable period of time, it may not be able to achieve its objective of enhancing value. Further, we face significant competition for suitable acquisition properties from other real estate investors, including other publicly traded real estate investment trusts and private institutional investors. As a result, we may be unable to acquire additional properties we desire or the purchase price for desirable properties may be significantly increased.

In addition, some of these properties may have unknown characteristics or deficiencies or may not complement our portfolio of existing properties. We may also finance future acquisitions and developments through a combination of borrowings, proceeds from equity or debt offerings by us or the Operating Partnership, and proceeds from property divestitures. These financing options may not be available when desired or required or may be more costly than anticipated, which could adversely affect our cash flow. Real property development is subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, financing risks, and the possible inability to meet expected occupancy and rent levels. If any of these problems occur, development costs for a project may increase, and there may be costs incurred for projects that are not completed. As a result of the foregoing, some properties may be worth less or may generate less revenue than, or simply not perform as well as, we believed at the time of acquisition or development, negatively affecting our operating results. Any of the foregoing risks could adversely affect our financial condition, operating results and cash flow, and our ability to pay dividends on, and the market price of, our stock. In addition, we may be unable to successfully integrate and effectively manage the properties we do acquire and develop, which could adversely affect our results of operations.

*Acquired properties are subject to property tax reappraisals which may increase our property tax expense:* Facilities that we acquire are subject to property tax reappraisal which can result in substantial increases to the ongoing property taxes paid by the seller. The reappraisal process is subject to judgment of governmental agencies regarding estimated real estate values and other factors, and as a result there is a significant degree of uncertainty in estimating the property tax expense of an acquired property. In connection with future or recent

acquisitions of properties, if our estimates of property taxes following reappraisal are too low, we may not realize anticipated earnings from an acquisition.

We acquire existing properties, either in individual transactions or portfolios offered by other commercial real estate owners. In addition to the general risks related to real estate described above, we are also subject to the following risks which may jeopardize our realization of benefits from acquisitions.

**We would incur adverse tax consequences if we fail to qualify as a REIT.**

*Our cash flow would be reduced if we fail to qualify as a REIT:* While we believe that we have qualified since 1990 to be taxed as a REIT, and will continue to be so qualified, we cannot be certain. To continue to qualify as a REIT, we need to satisfy certain requirements under the federal income tax laws relating to our income, assets, distributions to shareholders and shareholder base. In this regard, the share ownership limits in our articles of incorporation do not necessarily ensure that our shareholder base is sufficiently diverse for us to qualify as a REIT. For any year we fail to qualify as a REIT, we would be taxed at regular corporate tax rates on our taxable income unless certain relief provisions apply. Taxes would reduce our cash available for distributions to shareholders or for reinvestment, which could adversely affect us and our shareholders. Also we would not be allowed to elect REIT status for five years after we fail to qualify unless certain relief provisions apply.

*We may need to borrow funds to meet our REIT distribution requirements:* To qualify as a REIT, we must generally distribute to our shareholders 90% of our taxable income. Our income consists primarily of our share of our Operating Partnership's income. We intend to make sufficient distributions to qualify as a REIT and otherwise avoid corporate tax. However, differences in timing between income and expenses and the need to make nondeductible expenditures such as capital improvements and principal payments on debt could force us to borrow funds to make necessary shareholder distributions.

**PS has significant influence over us.**

At December 31, 2011, PS owned 24.0% of the outstanding shares of the Company's common stock and 23.2% of the outstanding common units of the Operating Partnership (100.0% of the common units not owned by the Company). Assuming issuance of the Company's common stock upon redemption of its partnership units, PS would own 41.7% of the outstanding shares of the Company's common stock. In addition, the PS Business Parks name and logo is owned by PS and licensed to the Company under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six months written notice. Ronald L. Havner, Jr., the Company's chairman, is also Chairman of the Board, Chief Executive Officer and President of PS. Consequently, PS has the ability to significantly influence all matters submitted to a vote of our shareholders, including electing directors, changing our articles of incorporation, dissolving and approving other extraordinary transactions such as mergers, and all matters requiring the consent of the limited partners of the Operating Partnership. PS's interest in such matters may differ from other shareholders. In addition, PS's ownership may make it more difficult for another party to take over our Company without PS's approval.

**Provisions in our organizational documents may prevent changes in control.**

*Our articles generally prohibit any person from owning more than 7% of our shares:* Our articles of incorporation restrict the number of shares that may be owned by any other person, and the partnership agreement of our Operating Partnership contains an anti-takeover provision. No shareholder (other than PS and certain other specified shareholders) may own more than 7% of the outstanding shares of our common stock, unless our board of directors waives this limitation. We imposed this limitation to avoid, to the extent possible, a concentration of ownership that might jeopardize our ability to qualify as a REIT. This limitation, however, also makes a change of control much more difficult (if not impossible) even if it may be favorable to our public shareholders. These provisions will prevent future takeover attempts not supported by PS even if a majority of our public shareholders consider it to be in their best interests as they would receive a premium for their shares over market value or for other reasons.

*Our board can set the terms of certain securities without shareholder approval:* Our board of directors is authorized, without shareholder approval, to issue up to 50.0 million shares of preferred stock and up to

100.0 million shares of equity stock, in each case in one or more series. Our board has the right to set the terms of each of these series of stock. Consequently, the board could set the terms of a series of stock that could make it difficult (if not impossible) for another party to take over our Company even if it might be favorable to our public shareholders. Our articles of incorporation also contain other provisions that could have the same effect. We can also cause our Operating Partnership to issue additional interests for cash or in exchange for property.

*The partnership agreement of our Operating Partnership restricts mergers:* The partnership agreement of our Operating Partnership generally provides that we may not merge or engage in a similar transaction unless the limited partners of our Operating Partnership are entitled to receive the same proportionate payments as our shareholders. In addition, we have agreed not to merge unless the merger would have been approved had the limited partners been able to vote together with our shareholders, which has the effect of increasing PS's influence over us due to PS's ownership of operating partnership units. These provisions may make it more difficult for us to merge with another entity.

**Our Operating Partnership poses additional risks to us.**

Limited partners of our Operating Partnership, including PS, have the right to vote on certain changes to the partnership agreement. They may vote in a way that is against the interests of our shareholders. Also, as general partner of our Operating Partnership, we are required to protect the interests of the limited partners of the Operating Partnership. The interests of the limited partners and of our shareholders may differ.

**We depend on external sources of capital to grow our Company.**

We are generally required under the Internal Revenue Code to distribute at least 90% of our taxable income. Because of this distribution requirement, we may not be able to fund future capital needs, including any necessary building and tenant improvements, from operating cash flow. Consequently, we may need to rely on third-party sources of capital to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Access to third-party sources of capital depends, in part, on general market conditions, the market's perception of our growth potential, our current and expected future earnings, our cash flow, and the market price per share of our common stock. If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, satisfy any debt service obligations, or make cash distributions to shareholders.

**We would incur adverse tax consequences if we fail to qualify as a REIT.**

*Our cash flow would be reduced if we fail to qualify as a REIT:* While we believe that we have qualified since 1990 to be taxed as a REIT, and will continue to be so qualified, we cannot be certain. To continue to qualify as a REIT, we need to satisfy certain requirements under the federal income tax laws relating to our income, assets, distributions to shareholders and shareholder base. In this regard, the share ownership limits in our articles of incorporation do not necessarily ensure that our shareholder base is sufficiently diverse for us to qualify as a REIT. For any year we fail to qualify as a REIT, we would be taxed at regular corporate tax rates on our taxable income unless certain relief provisions apply. Taxes would reduce our cash available for distributions to shareholders or for reinvestment, which could adversely affect us and our shareholders. Also we would not be allowed to elect REIT status for five years after we fail to qualify unless certain relief provisions apply.

*We may need to borrow funds to meet our REIT distribution requirements:* To qualify as a REIT, we must generally distribute to our shareholders 90% of our taxable income. Our income consists primarily of our share of our Operating Partnership's income. We intend to make sufficient distributions to qualify as a REIT and otherwise avoid corporate tax. However, differences in timing between income and expenses and the need to make nondeductible expenditures such as capital improvements and principal payments on debt could force us to borrow funds to make necessary shareholder distributions.

**We are subject to laws and governmental regulations and actions that affect our operating results and financial condition.**

Our business is subject to regulation under a wide variety of U.S. federal, state and local laws, regulations and policies including those imposed by the SEC, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act and New York Stock Exchange, as well as applicable labor laws. Although we have policies and procedures designed to comply with applicable laws and regulations, failure to comply with the various laws and regulations may result in civil and criminal liability, fines and penalties, increased costs of compliance and restatement of our financial statements.

There can also be no assurance that, in response to current economic conditions or the current political environment or otherwise, laws and regulations will not be implemented or changed in ways that adversely affect our operating results and financial condition, such as recently adopted legislation that expands health care coverage costs or facilitates union activity or federal legislative proposals to otherwise increase operating costs.

**Terrorist attacks and the possibility of wider armed conflict may have an adverse impact on our business and operating results and could decrease the value of our assets.**

Terrorist attacks and other acts of violence or war could have a material adverse impact on our business and operating results. There can be no assurance that there will not be further terrorist attacks against the U.S. Attacks or armed conflicts that directly impact one or more of our properties could significantly affect our ability to operate those properties and thereby impair our operating results. Further, we may not have insurance coverage for losses caused by a terrorist attack. Such insurance may not be available, or if it is available and we decide to obtain such terrorist coverage, the cost for the insurance may be significant in relationship to the risk overall. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations. Finally, further terrorist acts could cause the U.S. to enter into a wider armed conflict, which could further impact our business and operating results.

**Developments in California may have an adverse impact on our business and financial results.**

We are headquartered in, and approximately 41.0% of our properties are located in California, which like many other state and local jurisdictions is facing severe budgetary problems and deficits. Actions that may be taken in response to these problems, such as increases in property taxes, changes to sales taxes or other governmental efforts to raise revenues could adversely impact our business and results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



## ITEM 2. PROPERTIES

As of December 31, 2011, the Company owned 102 business parks consisting of a geographically diverse portfolio of 27.2 million rentable square feet of commercial real estate which consists of 14.7 million square feet of flex space, 7.5 million square feet of industrial space and 5.0 million square feet of office space concentrated primarily in eight states consisting of California, Virginia, Florida, Texas, Maryland, Oregon, Arizona and Washington. The weighted average occupancy rate throughout 2011 was 89.2% and the realized rent per square foot was \$15.24.

The following table reflects the geographical diversification of the 102 business parks owned by the Company as of December 31, 2011, the type of the rentable square footage and the weighted average occupancy rates throughout 2011 (except as set forth below, all of the properties are held in fee simple interest) (*in thousands, except number of business parks*):

State	Number of Business Parks	Rentable Square Footage				Weighted Average Occupancy Rate
		Flex	Industrial	Office	Total	
California (1)	48	5,356	4,618	1,167	11,141	89.5%
Virginia	17	1,947	—	2,218	4,165	84.2%
Florida (1)	3	1,074	2,631	12	3,717	96.4%
Texas (2)	19	3,095	231	—	3,326	90.4%
Maryland	6	970	—	1,382	2,352	87.0%
Oregon	3	1,126	—	188	1,314	82.8%
Arizona	4	679	—	—	679	89.6%
Washington	2	493	—	28	521	93.6%
Total	102	14,740	7,480	4,995	27,215	89.2%

- (1) The Company has 5.4 million square feet, 5.1 million square feet in California and 307,000 square feet in Florida, which serves as collateral to mortgage notes payable. For more information, see Note 6 to the consolidated financial statements.
- (2) The Company owns two properties that are subject to ground leases in Las Colinas, Texas, expiring in 2019 and 2020, each with one 10 year extension option.

We currently anticipate that each of the properties listed above will continue to be used for its current purpose. Competition exists in each of the market areas in which these properties are located.

The Company has no plans to change the current use of its properties. The Company typically renovates its properties in connection with the re-leasing of space to tenants and expects that it will pay the costs of such renovations from rental income. The Company has risks that tenants will default on leases and declare bankruptcy. Management believes these risks are mitigated through the Company's geographic diversity and diverse tenant base.

The Company evaluates the performance of its business parks primarily based on net operating income ("NOI"). NOI is defined by the Company as rental income as defined by GAAP less cost of operations as defined by GAAP, excluding depreciation and amortization. The Company uses NOI and its components as a measurement of the performance of its commercial real estate. Management believes that these financial measures provide them, as well as the investor, the most consistent measurement on a comparative basis of the performance of the commercial real estate and its contribution to the value of the Company. Depreciation and amortization have been excluded from NOI as they are generally not used in determining the value of commercial real estate by management or the investment community. Depreciation and amortization are generally not used in determining value as they consider the historical costs of an asset compared to its current value; therefore, to understand the effect of the assets' historical cost on the Company's results, investors should look at GAAP financial measures, such as total operating costs including depreciation and amortization. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP. As part of the table below, we have reconciled total NOI to income from continuing operations, which we consider the most directly comparable financial measure calculated in accordance with GAAP. The following information illustrates rental income, cost

of operations and NOI generated by the Company's total portfolio in 2011, 2010 and 2009 by state and by property classifications. As a result of acquisitions and dispositions, certain properties were not held for the full year.

The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with GAAP. The tables below also include a reconciliation of NOI to the most comparable amounts based on GAAP (in thousands):

	For the Year Ended December 31, 2011			For the Year Ended December 31, 2010			For the Year Ended December 31, 2009					
	Flex	Office	Industrial	Total	Flex	Office	Industrial	Total	Flex	Office	Industrial	Total
<b>Rental Income:</b>												
California	\$ 48,014	\$18,557	\$ 8,517	\$ 75,088	\$ 49,601	\$20,561	\$ 8,096	\$ 78,258	\$ 52,669	\$21,500	\$ 8,413	\$ 82,582
Virginia	32,829	42,030	—	74,859	33,464	25,665	—	59,129	34,265	24,575	—	58,840
Florida	10,592	235	20,250	31,077	10,228	216	20,076	30,520	11,292	212	19,912	31,416
Texas	31,229	—	1,308	32,537	28,274	—	1,265	29,539	23,285	—	1,245	24,530
Maryland	20,098	32,783	—	52,881	17,218	29,762	—	46,980	16,670	—	—	39,112
Oregon	14,029	3,210	—	17,239	15,094	3,049	—	18,143	14,269	2,941	—	17,210
Arizona	5,655	—	—	5,655	5,793	—	—	5,793	6,393	—	—	6,393
Washington	7,894	589	—	8,483	7,738	552	—	8,290	8,291	638	—	8,929
Total	170,340	97,404	30,075	297,819	167,410	79,805	29,437	276,652	167,134	72,308	29,570	269,012
<b>Cost of Operations:</b>												
California	14,748	7,799	2,151	24,698	14,732	8,015	1,745	24,492	14,643	7,983	1,778	24,404
Virginia	8,761	16,420	—	25,181	8,381	8,665	—	17,046	8,890	8,635	—	17,525
Florida	3,975	165	6,033	10,173	3,752	134	6,041	9,927	3,985	130	5,952	10,067
Texas	10,918	—	339	11,257	10,535	—	335	10,870	8,692	—	336	9,028
Maryland	5,182	11,261	—	16,443	5,160	10,036	—	15,196	4,820	7,293	—	12,113
Oregon	5,626	1,415	—	7,041	5,326	1,393	—	6,719	5,403	1,352	—	6,755
Arizona	2,734	—	—	2,734	2,749	—	—	2,749	2,735	—	—	2,735
Washington	2,420	201	—	2,621	2,438	193	—	2,631	2,205	207	—	2,412
Total	54,364	37,261	8,523	100,148	53,075	28,436	8,121	89,630	51,373	25,600	8,066	85,039
<b>NOI:</b>												
California	33,266	10,758	6,366	50,390	34,869	12,546	6,351	53,766	38,026	13,517	6,635	58,178
Virginia	24,068	25,610	—	49,678	25,083	17,000	—	42,083	25,375	15,940	—	41,315
Florida	6,617	70	14,217	20,904	6,476	82	14,035	20,593	7,307	82	13,960	21,349
Texas	20,311	—	969	21,280	17,739	—	930	18,669	14,593	—	909	15,502
Maryland	14,916	21,522	—	36,438	12,058	19,726	—	31,784	11,850	15,149	—	26,999
Oregon	8,403	1,795	—	10,198	9,768	1,656	—	11,424	8,866	1,589	—	10,455
Arizona	2,921	—	—	2,921	3,044	—	—	3,044	3,658	—	—	3,658
Washington	5,474	388	—	5,862	5,300	359	—	5,659	6,086	431	—	6,517
Total	\$115,976	\$60,143	\$21,552	\$197,671	\$114,337	\$51,369	\$21,316	\$187,022	\$115,761	\$46,708	\$21,504	\$183,973

The following table is provided to reconcile NOI to consolidated income from continuing operations as determined by GAAP (*in thousands*):

	<b>For The Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Property net operating income .....	\$197,671	\$187,022	\$183,973
Facility management fees .....	684	672	698
Interest and other income .....	221	333	536
Depreciation and amortization .....	(84,542)	(78,441)	(84,011)
General and administrative .....	(9,036)	(9,651)	(6,202)
Interest expense .....	(5,455)	(3,534)	(3,552)
Income from continuing operations .....	<u>\$ 99,543</u>	<u>\$ 96,401</u>	<u>\$ 91,442</u>

**Portfolio Information**

The table below sets forth information with respect to occupancy and rental rates of the Company’s total portfolio for each of the last five years, including discontinued operations:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Weighted average occupancy rate .....	89.2%	90.8%	90.5%	93.5%	93.4%
Realized rent per square foot .....	\$15.24	\$14.96	\$15.45	\$15.50	\$14.97

The following table set forth the lease expirations for all assets in continuing operations as of December 31, 2011 (*in thousands*):

**Lease Expirations as of December 31, 2011**

<u>Year of Lease Expiration</u>	<u>Rentable Square Footage Subject to Expiring Leases</u>	<u>Annualized Rental Income Under Expiring Leases</u>	<u>Percent of Annualized Rental Income Represented by Expiring Leases</u>
2012 .....	6,110	\$ 83,546	23.2%
2013 .....	6,419	92,317	25.7%
2014 .....	4,289	61,361	17.1%
2015 .....	2,597	36,827	10.2%
2016 .....	2,854	43,299	12.0%
2017 .....	802	13,350	3.8%
2018 .....	408	9,871	2.7%
2019 .....	150	3,086	0.9%
2020 .....	370	6,933	1.9%
2021 .....	306	4,776	1.3%
Thereafter .....	151	4,128	1.2%
Total .....	<u>24,456</u>	<u>\$359,494</u>	<u>100.0%</u>

**ITEM 3. LEGAL PROCEEDINGS**

We are not presently subject to material litigation nor, to our knowledge, is any material litigation threatened against us, other than routine actions for negligence and other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance or third party indemnifications and all of which collectively we do not expect to have a material adverse effect on our financial condition, results of operations, or liquidity.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Price of the Registrant's Common Equity:

The common stock of the Company trades on the New York Stock Exchange under the symbol PSB. The following table sets forth the high and low sales prices of the common stock on the New York Stock Exchange for the applicable periods:

<u>Three Months Ended</u>	<u>Range</u>	
	<u>High</u>	<u>Low</u>
March 31, 2010 .....	\$55.26	\$44.34
June 30, 2010 .....	\$61.88	\$50.69
September 30, 2010 .....	\$61.15	\$52.14
December 31, 2010 .....	\$61.54	\$51.31
March 31, 2011 .....	\$63.16	\$55.63
June 30, 2011 .....	\$61.10	\$52.13
September 30, 2011 .....	\$59.49	\$46.39
December 31, 2011 .....	\$56.87	\$46.19

#### Holders:

As of February 20, 2012, there were 407 holders of record of the common stock.

#### Dividends:

Holders of common stock are entitled to receive distributions when, as and if declared by the Company's Board of Directors out of any funds legally available for that purpose. The Company is required to distribute at least 90% of its taxable income prior to the filing of the Company's tax return to maintain its REIT status for federal income tax purposes. It is management's intention to pay distributions of not less than these required amounts.

Distributions paid per share of common stock for the years ended December 31, 2011 and 2010 amounted to \$1.76 per year. The Board of Directors has established a distribution policy intended to maximize the retention of operating cash flow and distribute the minimum amount required for the Company to maintain its tax status as a REIT. Pursuant to restrictions contained in the Company's Credit Facility, distributions may not exceed 95% of funds from operations, as defined therein, for any four consecutive quarters. For more information on the Credit Facility, see Note 5 to the consolidated financial statements.

#### Issuer Repurchases of Equity Securities:

The Company's Board of Directors previously authorized the repurchase, from time to time, of up to 6.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the three months ended December 31, 2011, there were no shares of the Company's common stock repurchased. As of December 31, 2011, the Company has 1,614,721 shares available for purchase under the program. The program does not expire. Purchases will be made subject to market conditions and other investment opportunities available to the Company.

#### Securities Authorized for Issuance Under Equity Compensation Plans:

The equity compensation plan information is provided in Item 12.

## ITEM 6. SELECTED FINANCIAL DATA

The following sets forth selected consolidated financial and operating information on a historical basis of the Company. The following information should be read in conjunction with the consolidated financial statements and notes thereto of the Company included elsewhere in this Form 10-K. Note that historical results from 2010 through 2007 were reclassified to conform to 2011 presentation for discontinued operations. See Note 3 to the consolidated financial statements included elsewhere in this Form 10-K for a discussion of income from discontinued operations.

	For The Years Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Revenues:					
Rental income . . . . .	\$297,819	\$276,652	\$269,012	\$279,166	\$266,892
Facility management fees . . . . .	684	672	698	728	724
Total operating revenues . . . . .	298,503	277,324	269,710	279,894	267,616
Expenses:					
Cost of operations . . . . .	100,148	89,630	85,039	86,311	82,416
Depreciation and amortization . . . . .	84,542	78,441	84,011	98,801	97,574
General and administrative . . . . .	9,036	9,651	6,202	8,099	7,917
Total operating expenses . . . . .	193,726	177,722	175,252	193,211	187,907
Other income and (expenses):					
Interest and other income . . . . .	221	333	536	1,457	5,104
Interest expense . . . . .	(5,455)	(3,534)	(3,552)	(3,952)	(4,130)
Total other income and (expenses) . . . . .	(5,234)	(3,201)	(3,016)	(2,495)	974
Income from continuing operations . . . . .	99,543	96,401	91,442	84,188	80,683
Discontinued operations:					
Income from discontinued operations . . . . .	380	468	1,409	1,159	992
Gain on sale of real estate facility . . . . .	2,717	5,153	1,488	—	—
Total discontinued operations . . . . .	3,097	5,621	2,897	1,159	992
Net income . . . . .	<u>\$102,640</u>	<u>\$102,022</u>	<u>\$ 94,339</u>	<u>\$ 85,347</u>	<u>\$ 81,675</u>
Net income allocation:					
Net income allocable to noncontrolling interests: . .					
Noncontrolling interests — common units . . . . .	\$ 15,543	\$ 11,594	\$ 19,730	\$ 8,296	\$ 6,155
Noncontrolling interests — preferred units . . . . .	(6,991)	5,103	(2,569)	7,007	6,854
Total net income allocable to noncontrolling interests . . . . .	8,552	16,697	17,161	15,303	13,009
Net income allocable to PS Business Parks, Inc.:					
Common shareholders . . . . .	52,162	38,959	59,413	23,179	17,537
Preferred shareholders . . . . .	41,799	46,214	17,440	46,630	50,937
Restricted stock unit holders . . . . .	127	152	325	235	192
Total net income allocable to PS Business Parks, Inc . . . . .	94,088	85,325	77,178	70,044	68,666
Net income . . . . .	<u>\$102,640</u>	<u>\$102,022</u>	<u>\$ 94,339</u>	<u>\$ 85,347</u>	<u>\$ 81,675</u>

	For The Years Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
<b>Per Common Share:</b>					
Cash Distributions . . . . .	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.61
Net income — basic . . . . .	\$ 2.13	\$ 1.59	\$ 2.70	\$ 1.13	\$ 0.82
Net income — diluted . . . . .	\$ 2.12	\$ 1.58	\$ 2.68	\$ 1.12	\$ 0.81
Weighted average common shares— basic . . . . .	24,516	24,546	21,998	20,443	21,313
Weighted average common shares — diluted . . . . .	24,599	24,687	22,128	20,618	21,573
<b>Balance Sheet Data:</b>					
Total assets . . . . .	\$2,138,619	\$1,621,057	\$1,564,822	\$1,469,323	\$1,516,583
Total debt . . . . .	\$ 717,084	\$ 144,511	\$ 52,887	\$ 59,308	\$ 60,725
<b>Equity:</b>					
PS Business Parks, Inc.'s shareholder's equity:					
Preferred stock . . . . .	\$ 598,546	\$ 598,546	\$ 626,046	\$ 706,250	\$ 716,250
Common stock . . . . .	\$ 580,659	\$ 594,982	\$ 589,633	\$ 414,564	\$ 439,330
Noncontrolling interests:					
Preferred units . . . . .	\$ 5,583	\$ 53,418	\$ 73,418	\$ 94,750	\$ 94,750
Common units . . . . .	\$ 175,807	\$ 176,179	\$ 176,540	\$ 148,023	\$ 154,470
<b>Other Data:</b>					
Net cash provided by operating activities . . .	\$ 181,876	\$ 177,941	\$ 179,625	\$ 189,337	\$ 184,094
Net cash used in investing activities . . . . .	\$ (338,362)	\$ (327,448)	\$ (26,956)	\$ (35,192)	\$ (180,188)
Net cash provided by (used in) financing activities . . . . .	\$ 156,400	\$ (53,656)	\$ 545	\$ (134,171)	\$ (35,882)
Funds from operations(1) . . . . .	\$ 149,797	\$ 124,420	\$ 163,074	\$ 131,558	\$ 122,405
Square footage owned at end of period . . . . .	27,215	21,791	19,556	19,556	19,556

(1) Funds from operations (“FFO”) is computed in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income, computed in accordance with GAAP, before depreciation, amortization, gains or losses on asset dispositions, net income allocable to noncontrolling interests — common units, net income allocable to restricted stock unit holders and nonrecurring items. FFO should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of operating performance or liquidity as it does not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company’s properties, which are significant economic costs and could materially impact the Company’s results of operations. Other REITs may use different methods for calculating FFO and, accordingly, the Company’s FFO may not be comparable to that of other real estate companies. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Funds from Operations,” for a reconciliation of FFO and net income allocable to common shareholders and for information on why the Company presents FFO.

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

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

### **Overview**

As of December 31, 2011, the Company owned and operated 27.2 million rentable square feet of multi-tenant flex, industrial and office properties located in eight states.

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

During 2011, the Company leased 6.6 million square feet of space including 3.8 million square feet of renewals of existing leases and 2.8 million square feet of new leases. Overall, the Company experienced a decrease in rental rates in comparing new rental rates to outgoing rental rates by 8.3%. See further discussion of operating results below.

### ***Critical Accounting Policies and Estimates:***

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

*Revenue Recognition:* The Company must meet four basic criteria before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services rendered; the fee is fixed or determinable; and collectability is reasonably assured. All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Straight-line rent is recognized for all tenants with contractual fixed increases in rent that are not included on the Company's credit watch list. Deferred rent receivable represents rental revenue recognized on a straight-line basis in excess of billed rents. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as rental income in the period the applicable costs are incurred. Property management fees are recognized in the period earned.

*Property Acquisitions:* The Company records the purchase price of acquired properties to land, buildings and improvements and intangible assets and liabilities associated with in-place leases (including tenant improvements, unamortized lease commissions, value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any) based on their respective estimated fair values. Acquisition-related costs are expensed as incurred.

In determining the fair value of the tangible assets of the acquired properties, management considers the value of the properties as if vacant as of the acquisition date. Management must make significant assumptions in determining the value of assets acquired and liabilities assumed. Using different assumptions in the recording of the purchase cost of the acquired properties would affect the timing of recognition of the related revenue and expenses. Amounts recorded to land are derived from comparable sales of land within the same region. Amounts recorded to buildings and improvements, tenant improvements and unamortized lease commissions are based on current market replacement costs and other market rate information.

The value recorded to the above-market or below-market in-place lease values of acquired properties is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual rents to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The amounts recorded to above-market or below-market leases are included in other assets or other liabilities in the accompanying consolidated balance sheets and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases.

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

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

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

*Impairment of Long-Lived Assets:* The Company evaluates a property for potential impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. On a quarterly basis, we evaluate our entire portfolio for impairment based on current operating information. In the event that these periodic assessments reflect that the carrying amount of a property exceeds the sum of the undiscounted cash flows (excluding interest) that are expected to result from the use and eventual disposition of the property, the Company would recognize an impairment loss to the extent the carrying amount exceeded the estimated fair value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on subjective assumptions dependent upon future and current market conditions and events that affect the ultimate value of the property. Management must make assumptions related to the property such as future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, occupancy levels and the estimated proceeds generated from the future sale of the property. These assumptions could differ materially from actual results in future periods. Our intent to hold properties over the long-term directly decreases the likelihood of recording an impairment loss. If our strategy changes or if market conditions otherwise dictate an earlier sale date, an impairment loss could be recognized, and such loss could be material.



**Depreciation:** We compute depreciation on our buildings and improvements using the straight-line method based on estimated useful lives generally ranging from five to 30 years. A significant portion of the acquisition cost of each property is recorded to building and building components. The recording of the acquisition cost to building and building components, as well as the determination of their useful lives, are based on estimates. If we do not appropriately record to these components or we incorrectly estimate the useful lives of these components, our computation of depreciation expense may not appropriately reflect the actual impact of these costs over future periods, which will affect net income. In addition, the net book value of real estate assets could be overstated or understated. The statement of cash flows, however, would not be affected.

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

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

**Effect of Economic Conditions on the Company's Operations:** During 2011, the impact of the recent recession and continued weak economic conditions on commercial real estate was significant as the Company continued to experience decreases in new rental rates over expiring rental rates on executed leases. Although it is uncertain what impact economic conditions will have on the Company's future ability to maintain existing occupancy levels and rental rates, management expects that the decrease in rental rates on lease transactions will result in a decrease in rental income for 2012 when compared to 2011. Current and future economic conditions may continue to have a significant impact on the Company, potentially resulting in further reductions in occupancy and rental rates.

While the Company historically has experienced a low level of write-offs of uncollectable rents, there is inherent uncertainty in a tenant's ability to continue paying rent and meet their full lease obligation. The table below summarizes the impact to the Company from tenants' inability to pay rent or continue to meet their lease obligations (*in thousands*):

	For The Years Ended December 31,		
	2011	2010	2009
Annual write — offs of uncollectible rent . . . . .	\$1,172	\$1,464	\$ 988
Annual write — offs as a percentage of annual rental income . . . . .	0.4%	0.5%	0.4%
Square footage of leases terminated prior to scheduled expiration due to business failures/bankruptcies . . . . .	536	572	821
Accelerated depreciation expense related to unamortized tenant improvements and lease commissions associated with early terminations . . . . .	\$1,370	\$2,779	\$2,653

As of February 24, 2012, the Company had 24,000 square feet of leased space occupied by tenants that are protected by Chapter 11 of the U.S. Bankruptcy Code. From time to time, tenants contact us, requesting early termination of their lease, a reduction in space under lease, or rent deferment or abatement. At this time, the Company cannot anticipate what impact, if any, the ultimate outcome of these discussions will have on our future operating results.

**Company Performance and Effect of Economic Conditions on Primary Markets:** The Company's operations are substantially concentrated in 10 regions. During the year ended December 31, 2011, initial rental rates on new and renewed leases within the Company's overall portfolio decreased 8.3% over expiring rents, an

improvement from a decline of 13.0% for the year ended December 31, 2010. The Company's Same Park (defined below) occupancy rate at December 31, 2011 was 92.5%, up from 91.8% at December 31, 2010. The Company's overall occupancy rate at December 31, 2011 was 88.9%, compared to 89.6% at December 31, 2010. Each of the 10 regions in which the Company owns assets is subject to its own unique market influences. See "Supplemental Property Data and Trends" below for more information on regional operating data.

**Growth of the Company's Operations and Acquisitions and Dispositions of Properties:** The Company is focused on maximizing cash flow from its existing portfolio of properties by looking for opportunities to expand its presence in existing and new markets through strategic acquisitions. The Company may from time to time dispose of non-strategic assets that do not meet this criterion. The Company has historically maintained a low-leverage-level approach intended to provide the Company with the greatest level of flexibility for future growth.

As of December 31, 2011, the blended occupancy rate of the nine assets acquired was 80.1% compared to a blended occupancy rate of 77.5% at the time of acquisition. As of December 31, 2011, the Company had 1.6 million square feet of vacancy spread over these nine acquisitions which provides the Company with considerable opportunity to generate additional rental income given that the Company's other assets in these same submarkets have a blended occupancy of 91.9% at December 31, 2011. The table below reflects the assets acquired in 2011 and 2010 (*in thousands*):

<u>Property</u>	<u>Date Acquired</u>	<u>Location</u>	<u>Purchase Price</u>	<u>Square Feet</u>	<u>Occupancy at Acquisition</u>	<u>Occupancy at December 31, 2011</u>
Northern California						
Portfolio .....	December, 2011	East Bay, California	\$520,000	5,334	82.2%	82.4%
Royal Tech .....	October, 2011	Las Colinas, Texas	2,835	80	0.0%	0.0% (1)
MICC — Center 22 .....	August, 2011	Miami, Florida	3,525	46	33.3%	33.3%
Warren Building .....	June, 2011	Tysons Corner, Virginia	27,100	140	68.0%	69.5%
Westpark Business						
Campus .....	December, 2010	Tysons Corner, Virginia	140,000	735	61.9%	65.0%
Tysons Corporate Center ..	July, 2010	Tysons Corner, Virginia	35,400	270	47.0%	65.9%
Parklawn Business Park .....	June, 2010	Rockville, Maryland	23,430	232	70.6%	83.0%
Austin Flex Portfolio .....	April, 2010	Austin, Texas	42,900	704	88.0%	92.0%
Shady Grove Executive						
Center .....	March, 2010	Rockville, Maryland	60,000	350	73.5%	88.0%
<b>Total .....</b>			<b>\$855,190</b>	<b>7,891</b>	<b>77.5%</b>	<b>80.1%</b>

(1) As of January 1, 2012, the building was 100.0% leased to a single user.

In addition to the 2010 property acquisitions, during 2010, the Company also completed construction on a parcel of land within MICC in Miami, Florida, which added 75,000 square feet of rentable small tenant industrial space. As of December 31, 2011, the newly constructed building was 89.9% occupied. Collectively, the Non-Same Park (defined below) assets, which includes the acquired assets noted above and the development in Miami were 80.2% occupied at December 31, 2011.

The Company made no acquisitions during the year ended December 31, 2009.

In August, 2011, the Company completed the sale of Westchase Corporate Park, a 177,000 square foot flex park consisting of 13 buildings in Houston, Texas, for a gross sales price of \$9.8 million, resulting in a net gain of \$2.7 million.

During January, 2010, the Company completed the sale of a 131,000 square foot office building located in Houston, Texas, for a gross sales price of \$10.0 million, resulting in a net gain of \$5.2 million.

In May, 2009, the Company sold 3.4 acres of land held for development in Portland, Oregon, for a gross sales price of \$2.7 million, resulting in a net gain of \$1.5 million.

**Scheduled Lease Expirations:** In addition to the 3.0 million square feet, or 11.1%, of space available in our total portfolio as of December 31, 2011, leases representing 25.0% of the leased square footage of our total portfolio or 23.2% of annualized rental income are scheduled to expire in 2012. Our ability to re-lease available space depends upon the market conditions in the specific submarkets in which our properties are located. As a result, we cannot predict with certainty the rate at which expiring leases will be re-leased.

**Impact of Inflation:** Although inflation has not been significant in recent years, it remains a potential factor in our economy, and the Company continues to seek ways to mitigate its potential impact. A substantial portion of the Company's leases require tenants to pay operating expenses, including real estate taxes, utilities, and insurance, as well as increases in common area expenses, partially reducing the Company's exposure to inflation.

**Concentration of Portfolio by Region:** The table below reflects the Company's square footage from continuing operations based on regional concentration as of December 31, 2011 (*in thousands*):

<u>Region</u>	<u>Square Footage</u>	<u>Percent of Total</u>
California		
Northern California .....	7,153	26.3%
Southern California .....	3,988	14.7%
Virginia .....	4,165	15.3%
Florida .....	3,717	13.7%
Texas		
Northern Texas .....	1,769	6.5%
Southern Texas .....	1,557	5.7%
Maryland .....	2,352	8.6%
Oregon .....	1,314	4.8%
Arizona .....	679	2.5%
Washington .....	521	1.9%
Total Square Footage .....	<u>27,215</u>	<u>100.0%</u>

**Concentration of Credit Risk by Industry:** The information below depicts the industry concentration of our tenant base as of December 31, 2011. The Company analyzes this concentration to minimize significant industry exposure risk.

<u>Industry</u>	<u>Percent of Annualized Rental Income</u>
Business services .....	15.4%
Health services .....	11.3%
Government .....	10.6%
Computer hardware, software and related services .....	10.4%
Warehouse, distribution, transportation and logistics .....	9.3%
Engineering and construction .....	6.1%
Insurance and financial services .....	5.8%
Retail, food and automotive .....	5.4%
Communications .....	5.1%
Home furnishing .....	3.4%
Aerospace/defense products and services .....	3.2%
Electronics .....	3.1%
Educational services .....	1.7%
Other .....	9.2%
Total .....	<u>100.0%</u>

The information below depicts the Company's top 10 customers by annualized rental income as of December 31, 2011 (*in thousands*):

<u>Tenants</u>	<u>Square Footage</u>	<u>Annualized Rental Income(1)</u>	<u>Percent of Annualized Rental Income</u>
U.S. Government .....	829	\$21,930	6.5%
Lockheed Martin Corporation .....	193	5,237	1.5%
Level 3 Communication .....	197	3,641	1.1%
Kaiser Permanente .....	206	3,540	1.0%
Bristol-Meyers Squibb .....	114	2,667	0.8%
Wells Fargo. ....	120	2,231	0.7%
Luminex Corporation .....	149	2,209	0.7%
Keeco LLC. ....	280	1,950	0.6%
AARP .....	102	1,768	0.5%
ATS Corporation .....	58	1,745	0.5%
Total .....	<u>2,248</u>	<u>\$46,918</u>	<u>13.9%</u>

(1) For leases expiring prior to December 31, 2012, annualized rental income represents income to be received under existing leases from January 1, 2012 through the date of expiration.

### Comparison of 2011 to 2010

**Results of Operations:** Net income for the year ended December 31, 2011 was \$102.6 million compared to \$102.0 million for the year ended December 31, 2010. Net income allocable to common shareholders for the year ended December 31, 2011 was \$52.2 million compared to \$39.0 million for the year ended December 31, 2010. Net income per common share on a diluted basis was \$2.12 for the year ended December 31, 2011 compared to \$1.58 for the year ended December 31, 2010 (based on weighted average diluted common shares outstanding of 24,599,000 and 24,687,000, respectively). The increase in net income allocable to common shareholders was primarily a result of an increase in net operating income and lower distributions resulting from the reduction of preferred equity outstanding, partially offset by the change in gain on the sale of a real estate facility combined with increases in interest and depreciation expense primarily related to property acquisitions.

In order to evaluate the performance of the Company's overall portfolio over comparable periods, management analyzes the operating performance of stabilized properties owned and operated throughout both periods (herein referred to as "Same Park"). Acquired assets are generally considered stabilized when occupancy is within a range of comparable Company assets. Operating properties that the Company acquired subsequent to January 1, 2010 or those that are not deemed to be stabilized are referred to as "Non-Same Park." For the years ended December 31, 2011 and 2010, the Same Park facilities constitute 19.2 million rentable square feet, which includes all stabilized assets in continuing operations that the Company owned from January 1, 2010 through December 31, 2011, representing 70.7% of the 27.2 million square feet in the Company's portfolio as of December 31, 2011.

The following table presents the operating results of the Company's properties for the years ended December 31, 2011 and 2010 in addition to other income and expense items affecting income from continuing operations. The Company reports Same Park operations to provide information regarding trends for stabilized properties the Company has held for the periods being compared (*in thousands, except per square foot data*):

	<b>For The Years Ended December 31,</b>		<b>Change</b>
	<b>2011</b>	<b>2010</b>	
Rental income:			
Same Park (19.2 million rentable square feet) (1) . . . . .	\$256,442	\$261,198	(1.8%)
Non-Same Park (8.0 million rentable square feet) (2) . . . . .	41,377	15,454	167.7%
Total rental income . . . . .	<u>297,819</u>	<u>276,652</u>	7.7%
Cost of operations:			
Same Park . . . . .	84,228	83,858	0.4%
Non-Same Park . . . . .	15,920	5,772	175.8%
Total cost of operations . . . . .	<u>100,148</u>	<u>89,630</u>	11.7%
Net operating income (3):			
Same Park (1) . . . . .	172,214	177,340	(2.9%)
Non-Same Park . . . . .	25,457	9,682	162.9%
Total net operating income . . . . .	<u>197,671</u>	<u>187,022</u>	5.7%
Other income and (expenses):			
Facility management fees . . . . .	684	672	1.8%
Interest and other income . . . . .	221	333	(33.6%)
Interest expense . . . . .	(5,455)	(3,534)	54.4%
Depreciation and amortization . . . . .	(84,542)	(78,441)	7.8%
General and administrative . . . . .	(5,969)	(6,389)	(6.6%)
Acquisition transaction costs . . . . .	(3,067)	(3,262)	(6.0%)
Income from continuing operations . . . . .	<u>\$ 99,543</u>	<u>\$ 96,401</u>	3.3%
Same Park gross margin (4) . . . . .	67.2%	67.9%	(1.0%)
Same Park weighted average occupancy . . . . .	91.1%	91.6%	(0.5%)
Non-Same Park weighted average occupancy . . . . .	75.3%	77.9%	
Same Park realized rent per square foot (5) . . . . .	\$ 14.46	\$ 14.81	(2.4%)

(1) See above for a definition of Same Park. Excluding \$2.9 million of lease buyout income noted below, rental income and net operating income from the Same Park portfolio decreased 2.9% and 4.5%, respectively, for the year ended December 31, 2011 over 2010.

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

(3) Net operating income ("NOI") is an important measurement in the commercial real estate industry for determining the value of the real estate generating the NOI. See "Item 2. Properties" above for more information on NOI. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with GAAP.

(4) Same Park gross margin is computed by dividing Same Park NOI by Same Park rental income.

(5) Same Park realized rent per square foot represents the Same Park rental income earned per occupied square foot excluding \$2.9 million of lease buyout income noted below. Including the \$2.9 million of lease buyout income, Same Park realized rent per square foot was \$14.62 for the year ended December 31, 2011.

**Supplemental Property Data and Trends:** Rental income, cost of operations and rental income less cost of operations, excluding depreciation and amortization, or net operating income prior to depreciation and amortization (defined as "NOI" for purposes of the following table) from continuing operations is summarized for the years ended December 31, 2011 and 2010 by region below. See "Item 2. Properties" above for more information on NOI, including why the Company presents NOI and how the Company uses NOI. The

Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP.

The following table summarizes the Same Park operating results by region for the years ended December 31, 2011 and 2010. In addition, the table reflects the comparative impact on the overall rental income, cost of operations and NOI from properties that have been acquired since January 1, 2010, and the impact of such is included in Non-Same Park facilities in the table below. As part of the table below, we have reconciled total NOI to income from continuing operations (*in thousands*):

Region	Rental Income December 31, 2011	Rental Income December 31, 2010	Increase (Decrease)	Cost of Operations December 31, 2011	Cost of Operations December 31, 2010	Increase (Decrease)	NOI December 31, 2011	NOI December 31, 2010	Increase (Decrease)
<b>Same Park</b>									
Northern California	\$ 19,524	\$ 19,820	(1.5%)	\$ 6,871	\$ 6,830	0.6%	\$ 12,653	\$ 12,990	(2.6%)
Southern California	54,329	58,438	(7.0%)	17,430	17,662	(1.3%)	36,899	40,776	(9.5%)
Virginia	55,112	56,932	(3.2%)	17,009	16,079	5.8%	38,103	40,853	(6.7%)
Florida	30,407	30,397	0.0%	9,829	9,864	(0.4%)	20,578	20,533	0.2%
Northern Texas	16,482	16,664	(1.1%)	5,598	5,720	(2.1%)	10,884	10,944	(0.5%)
Southern Texas	8,313	7,878	5.5%	2,899	3,268	(11.3%)	5,414	4,610	17.4%
Maryland	40,898	38,843	5.3%	12,196	12,336	(1.1%)	28,702	26,507	8.3%
Oregon	17,239	18,143	(5.0%)	7,041	6,719	4.8%	10,198	11,424	(10.7%)
Arizona	5,655	5,793	(2.4%)	2,734	2,749	(0.5%)	2,921	3,044	(4.0%)
Washington	8,483	8,290	2.3%	2,621	2,631	(0.4%)	5,862	5,659	3.6%
<b>Total Same Park</b>	<b>256,442</b>	<b>261,198</b>	<b>(1.8%)</b>	<b>84,228</b>	<b>83,858</b>	<b>0.4%</b>	<b>172,214</b>	<b>177,340</b>	<b>(2.9%)</b>
<b>Non-Same Park</b>									
Northern California	1,235	—	100.0%	397	—	100.0%	838	—	100.0%
Virginia	19,747	2,197	798.8%	8,172	966	746.0%	11,575	1,231	840.3%
Florida	670	123	444.7%	344	63	446.0%	326	60	443.3%
Northern Texas	—	—	—	76	—	100.0%	(76)	—	(100.0%)
Southern Texas	7,742	4,997	54.9%	2,684	1,882	42.6%	5,058	3,115	62.4%
Maryland	11,983	8,137	47.3%	4,247	2,861	48.4%	7,736	5,276	46.6%
<b>Total Non-Same Park</b>	<b>41,377</b>	<b>15,454</b>	<b>167.7%</b>	<b>15,920</b>	<b>5,772</b>	<b>175.8%</b>	<b>25,457</b>	<b>9,682</b>	<b>162.9%</b>
<b>Total NOI</b>	<b>\$297,819</b>	<b>\$276,652</b>	<b>7.7%</b>	<b>\$100,148</b>	<b>\$89,630</b>	<b>11.7%</b>	<b>\$197,671</b>	<b>\$187,022</b>	<b>5.7%</b>

**Reconciliation of NOI to income  
from continuing operations**

Total NOI	\$197,671	\$187,022	5.7%
Other income and (expenses):			
Facilities management fees	684	672	1.8%
Interest and other income	221	333	(33.6%)
Interest expense	(5,455)	(3,534)	54.4%
Depreciation and amortization	(84,542)	(78,441)	7.8%
General and administrative	(9,036)	(9,651)	(6.4%)
<b>Income from continuing operations</b>	<b>\$ 99,543</b>	<b>\$ 96,401</b>	<b>3.3%</b>

The following table summarizes Same Park weighted average occupancy rates and realized rent per square foot by region for the years ended December 31, 2011 and 2010. Realized rent per square foot for Maryland and Total Same Park excludes \$2.9 million of lease buyout income:

Region	Weighted Average Occupancy Rates For The Years Ended December 31,			Realized Rent Per Square Foot For The Years Ended December 31,		
	2011	2010	Change	2011	2010	Change
Northern California	90.0%	89.7%	0.3%	\$11.93	\$12.15	(1.8%)
Southern California	89.6%	92.5%	(3.1%)	\$15.21	\$15.85	(4.0%)
Virginia	92.3%	92.7%	(0.4%)	\$19.77	\$20.34	(2.8%)
Florida	96.8%	95.6%	1.3%	\$ 8.73	\$ 8.84	(1.2%)
Northern Texas	92.0%	91.8%	0.2%	\$10.60	\$10.74	(1.3%)
Southern Texas	89.5%	86.7%	3.2%	\$10.88	\$10.65	2.2%
Maryland	88.5%	91.4%	(3.2%)	\$24.29	\$24.03	1.1%
Oregon	82.8%	83.7%	(1.1%)	\$15.85	\$16.50	(3.9%)
Arizona	89.6%	86.7%	3.3%	\$ 9.30	\$ 9.84	(5.5%)
Washington	93.6%	90.4%	3.5%	\$17.39	\$17.60	(1.2%)
<b>Total Same Park</b>	<b>91.1%</b>	<b>91.6%</b>	<b>(0.5%)</b>	<b>\$14.46</b>	<b>\$14.81</b>	<b>(2.4%)</b>

**Rental Income:** Rental income increased \$21.2 million from \$276.7 million for the year ended December 31, 2010 to \$297.8 million for the year ended December 31, 2011 as a result of a \$25.9 million increase in rental income from Non-Same Park facilities, partially offset by a \$4.8 million decrease in rental income from the Same Park portfolio. The decrease in rental income from the Same Park portfolio was due to decreases in rental and occupancy rates, partially offset by lease buyout income of \$2.9 million associated with a 53,000 square foot lease in Maryland which terminated during the third quarter of 2011. Excluding the lease buyout income, rental income from the Same Park portfolio decreased \$7.6 million.

**Facility Management Fees:** Facility management fees account for a small portion of the Company's net income. During the year ended December 31, 2011, \$684,000 of revenue was recognized from facility management fees compared to \$672,000 for the year ended December 31, 2010.

**Cost of Operations:** Cost of operations for the year ended December 31, 2011 was \$100.1 million compared to \$89.6 million for the year ended December 31, 2010, an increase of \$10.5 million, or 11.7% as a result of increases in cost of operations from Non-Same Park facilities of \$10.1 million and Same Park of \$370,000. The increase in Same Park cost of operations was due to increases in utility costs and repairs and maintenance costs, partially offset by a decrease in payroll and benefit costs.

**Depreciation and Amortization Expense:** Depreciation and amortization expense was \$84.5 million for the year ended December 31, 2011 compared to \$78.4 million for the year ended December 31, 2010. The increase was primarily due to depreciation from 2011 and 2010 property acquisitions.

**General and Administrative Expenses:** For the year ended December 31, 2011, general and administrative expenses decreased \$615,000, or 6.4%, over 2010 as a result of a decrease in payroll and benefit costs and a reduction in professional fees related to legal fees paid during the first quarter of 2010. Additionally, general and administrative expenses for the year ended December 31, 2011 were further reduced due to a decrease in acquisition transactions costs. The Company incurred and expensed acquisition transaction costs of \$3.1 million and \$3.3 million for the years ended December 31, 2011 and 2010, respectively.

**Interest and Other Income:** Interest and other income reflect earnings on cash balances in addition to miscellaneous income items. Interest income was \$22,000 for the year ended December 31, 2011 compared to \$198,000 for the year ended December 31, 2010. The decrease was primarily attributable to lower average cash balances in 2011. Average cash balances and effective interest rates for the year ended December 31, 2011 were \$12.7 million and 0.2%, respectively, compared to \$111.7 million and 0.2%, respectively, for the year ended December 31, 2010.

**Interest Expense:** Interest expense was \$5.5 million for the year ended December 31, 2011 compared to \$3.5 million for the year ended December 31, 2010. The increase was primarily attributable to an increase in borrowings on the Credit Facility, interest on the Term Loan and mortgage note assumption related to the Northern California Portfolio acquisition.

**Gain on Sale of Real Estate Facility:** Included in total discontinued operations is the gain on the sale of Westchase Corporate Park, a 177,000 square foot flex park consisting of 13 buildings in Houston, Texas, for a gross sales price of \$9.8 million, resulting in a net gain of \$2.7 million during August, 2011.

In January, 2010, the Company completed the sale of a 131,000 square foot office building located in Houston, Texas, for a gross sales price of \$10.0 million, resulting in a net gain of \$5.2 million.

**Net Income Allocable to Noncontrolling Interests:** Net income allocable to noncontrolling interests reflects the net income allocable to equity interests in the Operating Partnership that are not owned by the Company. Net income allocable to noncontrolling interests was \$8.6 million (\$7.0 million of loss allocated to preferred unit holders and \$15.5 million of income allocated to common unit holders) for the year ended December 31, 2011 compared to \$16.7 million of allocated income (\$5.1 million allocated to preferred unit holders and \$11.6 million allocated to common unit holders) for the year ended December 31, 2010. Included in net income allocable to noncontrolling interests for the year ended December 31, 2011 was a \$7.4 million loss allocated to preferred unit holders resulting from the repurchase by the Company of preferred units at an amount less than the carrying value, partially offset with \$1.7 million of income allocated to common unit holders due to the net gain on the

repurchases of preferred units. The decrease in net income allocable to noncontrolling interests was a result of a decrease in cash distributions as a result of the preferred equity transactions, partially offset by an increase in net operating income from Non-Same Park facilities.

### **Comparison of 2010 to 2009**

**Results of Operations:** Net income for the year ended December 31, 2010 was \$102.0 million compared to \$94.3 million for the year ended December 31, 2009. Net income allocable to common shareholders for the year ended December 31, 2010 was \$39.0 million compared to \$59.4 million for the year ended December 31, 2009. Net income per common share on a diluted basis was \$1.58 for the year ended December 31, 2010 compared to \$2.68 for the year ended December 31, 2009 (based on weighted average diluted common shares outstanding of 24,687,000 and 22,128,000, respectively). The decrease in net income allocable to common shareholders was primarily due to the net gain of \$35.6 million on the repurchase of preferred equity reported during the first quarter of 2009 combined with acquisition transaction costs of \$3.3 million related to 2010 acquisitions. These decreases were partially offset by reductions in depreciation expense, preferred equity cash distributions and net income allocable to noncontrolling interests — common units.

In order to evaluate the performance of the Company's overall portfolio over comparable periods, management analyzes the operating performance of stabilized properties owned and operated throughout both periods (herein referred to as "Same Park"). Acquired assets are generally considered stabilized when occupancy is within a range of comparable Company assets. Operating properties that the Company acquired subsequent to January 1, 2009 or those that are not deemed to be stabilized are referred to as "Non-Same Park." For the years ended December 31, 2010 and 2009, the Same Park facilities constitute 19.2 million rentable square feet, which includes all stabilized assets in continuing operations that the Company owned from January 1, 2009 through December 31, 2010, representing 88.3% of the 21.8 million square feet in the Company's portfolio as of December 31, 2010.



The following table presents the operating results of the Company's properties for the years ended December 31, 2010 and 2009 in addition to other income and expense items affecting income from continuing operations. The Company reports Same Park operations to provide information regarding trends for stabilized properties the Company has held for the periods being compared (*in thousands, except per square foot data*):

	For The Years Ended December 31,		Change
	2010	2009	
Rental income:			
Same Park (19.2 million rentable square feet) (1) . . . . .	\$261,198	\$269,012	(2.9%)
Non-Same Park (2.4 million rentable square feet) (2) . . . . .	15,454	—	100.0%
Total rental income . . . . .	<u>276,652</u>	<u>269,012</u>	2.8%
Cost of operations:			
Same Park . . . . .	83,858	85,039	(1.4%)
Non-Same Park . . . . .	5,772	—	100.0%
Total cost of operations . . . . .	<u>89,630</u>	<u>85,039</u>	5.4%
Net operating income (3):			
Same Park . . . . .	177,340	183,973	(3.6%)
Non-Same Park . . . . .	9,682	—	100.0%
Total net operating income . . . . .	<u>187,022</u>	<u>183,973</u>	1.7%
Other income and (expenses):			
Facility management fees . . . . .	672	698	(3.7%)
Interest and other income . . . . .	333	536	(37.9%)
Interest expense . . . . .	(3,534)	(3,552)	(0.5%)
Depreciation and amortization . . . . .	(78,441)	(84,011)	(6.6%)
General and administrative . . . . .	(6,389)	(6,202)	3.0%
Acquisition transaction costs . . . . .	(3,262)	—	100.0%
Income from continuing operations . . . . .	<u>\$ 96,401</u>	<u>\$ 91,442</u>	5.4%
Same Park gross margin (4) . . . . .	67.9%	68.4%	(0.7%)
Same Park weighted average occupancy . . . . .	91.6%	90.4%	1.3%
Non-Same Park weighted average occupancy . . . . .	77.9%	—	
Same Park realized rent per square foot (5) . . . . .	\$ 14.81	\$ 15.46	(4.2%)

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

**Supplemental Property Data and Trends:** Rental income, cost of operations and rental income less cost of operations, excluding depreciation and amortization, or net operating income prior to depreciation and amortization (defined as "NOI" for purposes of the following table) from continuing operations is summarized for the years ended December 31, 2010 and 2009 by region below. See "Item 2. Properties" above for more information on NOI, including why the Company presents NOI and how the Company uses NOI. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP.

The following table summarizes the Same Park operating results by region for the years ended December 31, 2010 and 2009. In addition, the table reflects the comparative impact on the overall rental income, cost of operations and NOI from properties that have been acquired since January 1, 2009, and the impact of such is included in Non-Same Park facilities in the table below. As part of the table below, we have reconciled total NOI to income from continuing operations (*in thousands*):

Region	Rental Income December 31, 2010	Rental Income December 31, 2009	Increase (Decrease)	Cost of Operations December 31, 2010	Cost of Operations December 31, 2009	Increase (Decrease)	NOI December 31, 2010	NOI December 31, 2009	Increase (Decrease)
<b>Same Park</b>									
Northern California	\$ 19,820	\$ 20,695	(4.2%)	\$ 6,830	\$ 6,788	0.6%	\$ 12,990	\$ 13,907	(6.6%)
Southern California	58,438	61,887	(5.6%)	17,662	17,616	0.3%	40,776	44,271	(7.9%)
Virginia	56,932	58,840	(3.2%)	16,079	17,525	(8.3%)	40,853	41,315	(1.1%)
Florida	30,397	31,416	(3.2%)	9,864	10,067	(2.0%)	20,533	21,349	(3.8%)
Northern Texas	16,664	16,576	0.5%	5,720	5,777	(1.0%)	10,944	10,799	1.3%
Southern Texas	7,878	7,954	(1.0%)	3,268	3,251	0.5%	4,610	4,703	(2.0%)
Maryland	38,843	39,112	(0.7%)	12,336	12,113	1.8%	26,507	26,999	(1.8%)
Oregon	18,143	17,210	5.4%	6,719	6,755	(0.5%)	11,424	10,455	9.3%
Arizona	5,793	6,393	(9.4%)	2,749	2,735	0.5%	3,044	3,658	(16.8%)
Washington	8,290	8,929	(7.2%)	2,631	2,412	9.1%	5,659	6,517	(13.2%)
Total Same Park	261,198	269,012	(2.9%)	83,858	85,039	(1.4%)	177,340	183,973	(3.6%)
<b>Non-Same Park</b>									
Virginia	2,197	—	100.0%	966	—	100.0%	1,231	—	100.0%
Florida	123	—	100.0%	63	—	100.0%	60	—	100.0%
Southern Texas	4,997	—	100.0%	1,882	—	100.0%	3,115	—	100.0%
Maryland	8,137	—	100.0%	2,861	—	100.0%	5,276	—	100.0%
Total Non-Same Park	15,454	—	100.0%	5,772	—	100.0%	9,682	—	100.0%
Total NOI	\$276,652	\$269,012	2.8%	\$89,630	\$85,039	5.4%	\$187,022	\$183,973	1.7%

**Reconciliation of NOI to income  
from continuing operations**

Total NOI	\$187,022	\$183,973	1.7%
Other income and (expenses):			
Facilities management fees	672	698	(3.7%)
Interest and other income	333	536	(37.9%)
Interest expense	(3,534)	(3,552)	(0.5%)
Depreciation and amortization	(78,441)	(84,011)	(6.6%)
General and administrative	(9,651)	(6,202)	55.6%
Income from continuing operations	\$ 96,401	\$ 91,442	5.4%

The following table summarizes Same Park weighted average occupancy rates and realized rent per square foot by region for the years ended December 31, 2010 and 2009:

Region	Weighted Average Occupancy Rates For The Years Ended December 31,			Realized Rent Per Square Foot For The Years Ended December 31,		
	2010	2009	Change	2010	2009	Change
Northern California	89.7%	85.5%	4.9%	\$12.15	\$13.31	(8.7%)
Southern California	92.5%	91.3%	1.3%	\$15.85	\$17.01	(6.8%)
Virginia	92.7%	93.6%	(1.0%)	\$20.34	\$20.82	(2.3%)
Florida	95.6%	94.5%	1.2%	\$ 8.84	\$ 9.24	(4.3%)
Northern Texas	91.8%	91.1%	0.8%	\$10.74	\$10.77	(0.3%)
Southern Texas	86.7%	84.9%	2.1%	\$10.65	\$10.98	(3.0%)
Maryland	91.4%	92.1%	(0.8%)	\$24.03	\$23.99	0.2%
Oregon	83.7%	79.9%	4.8%	\$16.50	\$16.40	0.6%
Arizona	86.7%	85.5%	1.4%	\$ 9.84	\$11.01	(10.6%)
Washington	90.4%	88.2%	2.5%	\$17.60	\$19.43	(9.4%)
Total Same Park	91.6%	90.4%	1.3%	\$14.81	\$15.46	(4.2%)

**Rental Income:** Rental income increased \$7.6 million from \$269.0 million to \$276.7 million for the year ended December 31, 2010 over 2009 as a result of rental income from Non-Same Park facilities of \$15.5 million, partially offset by a decrease in Same Park rental income of \$7.8 million. The decrease in rental income from the Same Park portfolio was due to a decrease in rental rates, partially offset by an increase in occupancy rates.

**Facility Management Fees:** Facility management fees account for a small portion of the Company's net income. During the year ended December 31, 2010, \$672,000 of revenue was recognized from facility management fees compared to \$698,000 for the year ended December 31, 2009.

**Cost of Operations:** Cost of operations for the year ended December 31, 2010 was \$89.6 million compared to \$85.0 million for the year ended December 31, 2009, an increase of \$4.6 million, or 5.4% as a result of cost of operations from Non-Same Park facilities of \$5.8 million, partially offset by a \$1.2 million decrease in Same Park costs of operations. The decrease in Same Park cost of operations was primarily due to decreases in property taxes, payroll and benefit costs and utility costs, partially offset by an increase in repairs and maintenance costs driven primarily by higher snow removal costs.

**Depreciation and Amortization Expense:** Depreciation and amortization expense was \$78.4 million for the year ended December 31, 2010 compared to \$84.0 million for the year ended December 31, 2009. The decrease was primarily due to a number of capital improvements that became fully depreciated, partially offset with depreciation from 2010 acquisitions.

**General and Administrative Expenses:** General and administrative expense was \$9.7 million for the year ended December 31, 2010 compared to \$6.2 million for the year ended December 31, 2009. The increase of \$3.4 million, or 55.6%, was primarily due to \$3.3 million of acquisition transaction costs related to 2010 property acquisitions.

**Interest and Other Income:** Interest and other income reflect earnings on cash balances in addition to miscellaneous income items. Interest income was \$198,000 for the year ended December 31, 2010 compared to \$431,000 for the year ended December 31, 2009. The decrease was primarily attributable to lower effective interest rates. Average cash balances and effective interest rates for the year ended December 31, 2010 were \$111.7 million and 0.2%, respectively, compared to \$112.7 million and 0.4%, respectively, for the year ended December 31, 2009.

**Interest Expense:** Interest expense was \$3.5 million for the year ended December 31, 2010 compared to \$3.6 million for the year ended December 31, 2009. The decrease was primarily attributable to the repayment of a mortgage note of \$5.1 million during the first quarter of 2009, partially offset by an increase in interest expense related to borrowings on the Credit Facility.

**Gain on Sale of Real Estate Facility:** Included in total discontinued operations is the gain on the sale of a 131,000 square foot office building located in Houston, Texas, for a gross sales price of \$10.0 million, resulting in a net gain of \$5.2 million during January, 2010.

In May, 2009, the Company sold 3.4 acres of land held for development in Portland, Oregon, for a gross sales price of \$2.7 million, resulting in a net gain of \$1.5 million.

**Net Income Allocable to Noncontrolling Interests:** Net income allocable to noncontrolling interests reflects the net income allocable to equity interests in the Operating Partnership that are not owned by the Company. Net income allocable to noncontrolling interests was \$16.7 million of allocated income (\$5.1 million allocated to preferred unit holders and \$11.6 million allocated to common unit holders) for the year ended December 31, 2010 compared to \$17.2 million (\$2.6 million loss allocated to preferred unit holders and \$19.7 million of income allocated to common unit holders) for the year ended December 31, 2009. The decrease in net income allocable to non-controlling interests for the year ended December 31, 2010 was minimal compared to the year ended December 31, 2009. Included in net income allocable to noncontrolling interests in 2010 were issuance costs of \$4.1 million associated with the preferred equity redemptions combined with a decrease in cash distributions as a result of the redemptions. Included in net income allocable to noncontrolling interests in 2009 was \$8.9 million of income allocated to common unit holders due to the net gain on the repurchases of preferred equity, partially offset with an \$8.4 million loss allocated to preferred unit holders due to the net gain on the repurchases of preferred units.

## Liquidity and Capital Resources

Cash and cash equivalents decreased \$86,000 from \$5.1 million at December 31, 2010 to \$5.0 million at December 31, 2011 for the reasons noted below.

Net cash provided by operating activities for the years ended December 31, 2011 and 2010 was \$181.9 million and \$177.9 million, respectively. Management believes that the Company's internally generated net cash provided by operating activities will be sufficient to enable it to meet its operating expenses, capital improvements, debt service requirements and distributions to shareholders.

Net cash used in investing activities was \$338.4 million and \$327.4 million for the years ended December 31, 2011 and 2010, respectively. The change was primarily due to an increase in capital improvements of \$9.2 million combined with an increase in cash paid for acquisitions. The Company paid \$297.7 million for acquisitions in Virginia, Florida, Texas and California in 2011 compared \$296.3 million for acquisitions in Maryland, Texas and Virginia in 2010.

Net cash provided by financing activities was \$156.4 million for the year ended December 31, 2011 compared to net cash used in financing activities of \$53.7 million for the year ended December 31, 2010. The \$210.1 million increase in cash provided was primarily due to a new three-year term loan of \$250.0 million entered in 2011 (described in Item 1, "Business — Borrowings") and a decrease in cash paid for repurchases/redemptions of preferred equity of \$83.4 million, partially offset by \$72.5 million of net proceeds from the issuance of preferred stock in 2010 and cash paid of \$30.3 million to repurchase common equity in 2011. The Company also assumed a \$250.0 million mortgage note in connection with the Northern California Portfolio acquisition in December, 2011.

As described in Item 1, "Business — Borrowings," the Company has a \$250.0 million credit facility. The Company had \$185.0 million outstanding on the Credit Facility at an interest rate of 1.41% at December 31, 2011. Subsequent to December 31, 2011, the Company repaid \$85.0 million on the Credit Facility reducing the outstanding balance to \$100.0 million as of February 24, 2012. The Company had \$93.0 million outstanding on the Credit Facility at an interest rate of 2.11% at December 31, 2010.

The Company's preferred equity outstanding decreased to 19.7% of its market capitalization during the year ended December 31, 2011 primarily due to an increase in outstanding short-term borrowings and an increase in mortgage notes payable combined with the repurchases of preferred units in 2011. The Company's capital structure is characterized by a low level of leverage. As of December 31, 2011, the Company had four fixed-rate mortgage notes totaling \$282.1 million and a combined outstanding balance on the Credit Facility and Term Loan of \$435.0 million, which represented 9.2% and 14.2%, respectively, of its total market capitalization. The Company calculates market capitalization by adding (1) the liquidation preference of the Company's outstanding preferred equity, (2) principal value of the Company's outstanding mortgage notes and (3) the total number of common shares and common units outstanding at December 31, 2011 multiplied by the closing price of the stock on that date. The weighted average interest rate for the mortgage notes is 5.47% per annum and the weighted average interest rate on the Credit Facility and Term Loan was 1.46%. The Company had 25.2% of its properties, in terms of net book value, encumbered at December 31, 2011.

The Company focuses on retaining cash for reinvestment as we believe that this provides the greatest level of financial flexibility. While operating results have been negatively impacted by the recent economic recession, it is likely that as the economy recovers and operating fundamentals improve, additional increases in distributions to the Company's common shareholders will be required. Going forward, the Company will continue to monitor its taxable income and the corresponding dividend requirements.

**Issuance of Preferred Stock:** Subsequent to December 31, 2011, the Company issued \$230.0 million or 9,200,000 depository shares, each representing 1/1,000 of a share of the 6.45% Cumulative Preferred Stock, Series S, at \$25.00 per depository share.

On October 15, 2010, the Company issued 3,000,000 depository shares, each representing 1/1,000 of a share of the 6.875% Cumulative Preferred Stock, Series R, at \$25.00 per depository share for gross proceeds of \$75.0 million.

**Issuance of Common Stock:** On August 14, 2009, the Company sold 3,450,000 shares of common stock in a public offering and concurrently sold 383,333 shares of common stock to PS. The aggregate net proceeds were \$171.2 million.

**Note Payable to Affiliate:** On February 9, 2011, the Company entered into an agreement with PS to borrow \$121.0 million with a maturity date of August 9, 2011 at an interest rate of LIBOR plus 0.85%. The Company repaid, in full, the note payable to PS upon maturity. Interest expense under this note payable was \$664,000 for the year ended December 31, 2011.

**Redemption of Preferred Equity:** Subsequent to December 31, 2011, the Company completed the redemption of its 7.20% Cumulative Preferred Stock, Series M, at its par value of \$79.6 million and its 7.375% Cumulative Preferred Stock, Series O, at its par value of \$84.6 million. The Company will report the excess of the redemption amount over the carrying amount of \$5.3 million, equal to the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders during the first quarter of 2012.

On November 8, 2010, the Company completed the redemption of its 7.60% Cumulative Preferred Stock, Series L, at its aggregate par value of \$48.4 million. The Company reported the excess of the redemption amount over the carrying amount of \$1.6 million, equal to the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2010.

On May 12, 2010, the Company completed the redemption of its 7.950% Series G Cumulative Redeemable Preferred Units at its aggregate par value of \$20.0 million, and on June 7, 2010, the Company completed the redemption of its 7.950% Cumulative Preferred Stock, Series K at its aggregate par value of \$54.1 million, in each case, together with accrued dividends. In connection with these redemptions, the Company reported the excess of the redemption amount over the carrying amount of \$2.4 million, equal to the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2010.

**Repurchase of Preferred Equity:** In February, 2011, the Company paid an aggregate of \$39.1 million to repurchase 1,710,000 units of its 7.50% Series J Cumulative Redeemable Preferred Units and 203,400 units of its 6.55% Series Q Cumulative Redeemable Preferred Units for a weighted average purchase price of \$20.43 per unit. The aggregate par value of the repurchased preferred units was \$47.8 million, which generated a gain of \$7.4 million, net of original issuance costs of \$1.4 million, which was added to net income allocable to common shareholders and unit holders for the year ended December 31, 2011.

During March, 2009, the Company paid \$50.2 million to repurchase 3,208,174 various depositary shares, each representing 1/1,000 of a share of Cumulative Redeemable Preferred Stock and \$12.3 million to repurchase 853,300 units of various series of Cumulative Redeemable Preferred Units for a weighted average purchase price of \$15.40 per share/unit. The aggregate par value of the repurchased preferred stock was \$80.2 million, which generated a gain of \$27.2 million, net of original issuance costs of \$2.8 million, which was added to net income allocable to common shareholders and unit holders for the year ended December 31, 2009. The aggregate par value of the repurchased preferred units was \$21.3 million, which generated a gain of \$8.4 million, net of original issuance costs of \$580,000, which was added to net income allocable to common shareholders and unit holders for the year ended December 31, 2009.

**Repurchase of Common Stock:** The Company's Board of Directors previously authorized the repurchase, from time to time, of up to 6.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the year ended December 31, 2011, the Company repurchased 591,500 shares of common stock at an aggregate cost of \$30.3 million or an average cost per share of \$51.14. Since inception of the program, the Company has repurchased an aggregate of 4.9 million shares of common stock at an aggregate cost of \$183.9 million or an average cost per share of \$37.64. Under existing board authorizations, the Company can repurchase an additional 1.6 million shares. No shares of common stock were repurchased under this program during the years ended December 31, 2010 and 2009.

**Mortgage Note Repayment:** In October, 2011, the Company repaid \$15.5 million on a mortgage note with a stated interest rate of 7.20%.

**Capital Expenditures:** During the years ended December 31, 2011, 2010 and 2009, the Company expended \$44.8 million, \$29.5 million and \$28.3 million, respectively, in recurring capital expenditures, or \$2.04, \$1.44 and \$1.45 per weighted average square foot owned, respectively. The Company defines recurring capital expenditures as those necessary to maintain and operate its commercial real estate at its current economic value. The following table depicts actual capital expenditures (*in thousands*):

	<b>For The Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Recurring capital expenditures . . . . .	\$44,812	\$29,494	\$28,345
Property renovations and other capital expenditures . . . . .	4,811	10,884	1,168
Total capital expenditures . . . . .	<u>\$49,623</u>	<u>\$40,378</u>	<u>\$29,513</u>

For the year ended December 31, 2011, recurring capital expenditures increased \$15.3 million, or 51.9%, over 2010 primarily due to \$12.4 million recurring of capital expenditures related to the lease up of the 2011 and 2010 acquisitions.

Property renovations and other capital expenditures decreased \$6.1 million from \$10.9 million for the year ended December 31, 2010 to \$4.8 million for the year ended December 31, 2011 as a result of the 2010 development at MICC in Miami, Florida, combined with other property renovations.

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

The Company's funding strategy has been to use permanent capital, including common and preferred stock, along with internally generated retained cash flows to meet its liquidity needs. In addition, the Company may sell properties that no longer meet its investment criteria. From time to time, the Company may use its Credit Facility or other forms of debt to fund real estate acquisitions or other capital allocations. The Company targets a minimum ratio of FFO to combined fixed charges and preferred distributions of 3.0 to 1.0. Fixed charges include interest expense. Preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unit holders. For the year ended December 31, 2011, the FFO to fixed charges and preferred distributions coverage ratio was 4.0 to 1.0, excluding the issuance costs related to the redemption of preferred equity.

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

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

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

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

	For The Years Ended December 31,				
	2011	2010	2009	2008	2007
Net income allocable to common					
shareholders . . . . .	\$ 52,162	\$ 38,959	\$ 59,413	\$ 23,179	\$ 17,537
Gain on sale of land and real estate					
facility . . . . .	(2,717)	(5,153)	(1,488)	—	—
Depreciation and amortization(1) . . . . .	84,682	78,868	85,094	99,848	98,521
Net income allocable to noncontrolling					
interests — common units . . . . .	15,543	11,594	19,730	8,296	6,155
Net income allocable to restricted stock					
unit holders . . . . .	127	152	325	235	192
Consolidated FFO allocable to common and					
dilutive shares . . . . .	149,797	124,420	163,074	131,558	122,405
FFO allocated to noncontrolling interests —					
common units . . . . .	(34,319)	(28,450)	(40,472)	(34,443)	(31,094)
FFO allocated to restricted stock unit					
holders . . . . .	(301)	(374)	(726)	(730)	(598)
FFO allocated to common shares . . . . .	<u>\$115,177</u>	<u>\$ 95,596</u>	<u>\$121,876</u>	<u>\$ 96,385</u>	<u>\$ 90,713</u>

(1) Includes depreciation from discontinued operations.

FFO allocable to common and dilutive shares for the year ended December 31, 2011 increased \$25.4 million over 2010. The increase was primarily as a result of an increase in net operating income from Non-Same Park facilities and lower distributions resulting from the reduction of preferred equity outstanding, partially offset by a decrease in Same Park net operating income.

**Related Party Transactions:** At December 31, 2011, PS owned 24.0% of the outstanding shares of the Company's common stock and 23.2% of the outstanding common units of the Operating Partnership (100.0% of the common units not owned by the Company). Assuming issuance of the Company's common stock upon redemption of its partnership units, PS would own 41.7% of the outstanding shares of the Company's common stock. Ronald L. Havner, Jr., the Company's chairman, is also the Chairman of the Board, Chief Executive Officer and President of PS. Gary E. Pruitt, an independent director of the Company is also a trustee of PS.

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PS for certain administrative services. These costs totaled \$442,000 in 2011, which are allocated to PS in accordance with a methodology intended to fairly allocate those costs. In addition, the Company provides property management services for properties owned by PS for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs. These management fee revenues recognized under management contract with PS totaled \$684,000 in 2011. PS also provides property management services for the self-storage component of two assets owned by the Company for a fee of 6% of the gross revenues of such properties in addition to reimbursement of certain costs. Management fee expense recognized under the management contract with PS totaled \$52,000 for the year ended December 31, 2011.

On February 9, 2011, the Company entered into an agreement with PS to borrow \$121.0 million with a maturity date of August 9, 2011 at an interest rate of LIBOR plus 0.85%. The Company repaid, in full, the note payable to PS upon maturity. Interest expense under this note payable was \$664,000 for the year ended December 31, 2011.

Concurrent with the public offering that closed August 14, 2009, the Company sold 383,333 shares of common stock to PS for net proceeds of \$17.8 million.

The PS Business Parks name and logo is owned by PS and licensed to the Company under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six-months written notice.

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

**Contractual Obligations:** The table below summarizes projected payments due under our contractual obligations as of December 31, 2011 (*in thousands*):

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>More than 5 years</u>
Mortgage notes payable					
(principal and interest) . . . . .	\$351,447	\$16,289	\$ 59,036	\$276,122	\$—
Credit Facility (principal) . . . . .	185,000	—	—	185,000	—
Term Loan (principal) . . . . .	250,000	—	250,000	—	—
Total . . . . .	<u>\$786,447</u>	<u>\$16,289</u>	<u>\$309,036</u>	<u>\$461,122</u>	<u>\$—</u>

The Company is scheduled to pay cash dividends of \$42.2 million per year on its preferred equity outstanding as of December 31, 2011. Dividends are paid when and if declared by the Company's Board of Directors and accumulate if not paid. Shares and units of preferred equity are redeemable by the Company in order to preserve its status as a REIT and are also redeemable five years after issuance.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

To limit the Company's exposure to market risk, the Company principally finances its operations and growth with permanent equity capital consisting of either common or preferred stock. The Company, from time to time, will use debt financing to facilitate acquisitions. In connection with the Northern California Portfolio acquisition, the Company assumed a \$250.0 million mortgage note and obtained a \$250.0 million term loan. As a result of the acquisition, the Company's debt as a percentage of total equity (based on book values) increased to 52.7% as of December 31, 2011.

The Company's market risk sensitive instruments include mortgage notes of \$282.1 million, the outstanding balance on the Credit Facility of \$185.0 million and the Term Loan of \$250.0 million as of December 31, 2011. All of the Company's mortgage notes bear interest at fixed rates with a weighted average fixed rate of 5.47% at December 31, 2011. The Credit Facility and Term Loan bear interest at variable rates which are currently LIBOR plus 1.10% and 1.20%, respectively. See Notes 2, 5 and 6 to consolidated financial statements for terms, valuations and approximate principal maturities of the mortgage notes payable, Credit Facility and Term Loan as of December 31, 2011. Based on borrowing rates currently available to the Company, the difference between the carrying amount of debt and its fair value is insignificant.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements of the Company at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 and the report of Ernst & Young LLP, Independent Registered Public Accounting Firm, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index to Consolidated Financial Statements and Schedules in Item 15.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not Applicable.



## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2011. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of December 31, 2011, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during year ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee on Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2011.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2011 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

### **Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2011 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
PS Business Parks, Inc.

We have audited PS Business Parks, Inc. internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PS Business Parks, Inc. management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PS Business Parks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
February 24, 2012

## **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item with respect to directors is hereby incorporated by reference to the material appearing in the Company's definitive proxy statement to be filed in connection with the annual shareholders' meeting to be held in 2012 (the "Proxy Statement") under the caption "Election of Directors."

The following is a biographical summary of the executive officers of the Company:

Joseph D. Russell, Jr., age 52, has been President since September, 2002 and was named Chief Executive Officer and elected as a Director in August, 2003. Mr. Russell joined Spieker Partners in 1990 and became an officer of Spieker Properties when it went public as a REIT in 1993. Prior to its merger with Equity Office Properties ("EOP") in 2001, Mr. Russell was President of Spieker Properties' Silicon Valley Region from 1999 to 2001. Mr. Russell earned a Bachelor of Science degree from the University of Southern California and a Masters of Business Administration from the Harvard Business School. Prior to entering the commercial real estate business, Mr. Russell spent approximately six years with IBM in various marketing positions. Mr. Russell has been a member and past President of the National Association of Industrial and Office Parks, Silicon Valley Chapter. Mr. Russell is also a member of the Board of Governors of NAREIT.

John W. Petersen, age 48, has been Executive Vice President and Chief Operating Officer since he joined the Company in December, 2004. Prior to joining the Company, Mr. Petersen was Senior Vice President, San Jose Region, for Equity Office Properties from July, 2001 to December, 2004, responsible for 11.3 million square feet of multi-tenant office, industrial and R&D space in Silicon Valley. Prior to EOP, Mr. Petersen was Senior Vice President with Spieker Properties, from 1995 to 2001 overseeing the growth of that company's portfolio in San Jose, through acquisition and development of nearly three million square feet. Mr. Petersen is a graduate of The Colorado College in Colorado Springs, Colorado, and was recently the President of National Association of Industrial and Office Parks, Silicon Valley Chapter.

Edward A. Stokx, age 46, a certified public accountant, has been Chief Financial Officer and Secretary of the Company since December, 2003 and Executive Vice President since March, 2004. Mr. Stokx has overall responsibility for the Company's finance and accounting functions. In addition, he has responsibility for executing the Company's financial initiatives. Mr. Stokx joined Center Trust, a developer, owner, and operator of retail shopping centers in 1997. Prior to his promotion to Chief Financial Officer and Secretary in 2001, he served as Senior Vice President, Finance and Controller. After Center Trust's merger in January, 2003 with another public REIT, Mr. Stokx provided consulting services to various entities. Prior to joining Center Trust, Mr. Stokx was with Deloitte and Touche from 1989 to 1997, with a focus on real estate clients. Mr. Stokx earned a Bachelor of Science degree in Accounting from Loyola Marymount University.

Maria R. Hawthorne, age 52, was promoted to Executive Vice President, East Coast of the Company in February, 2011. Ms. Hawthorne served as Senior Vice President from March, 2004 to February, 2011, with responsibility for property operations on the East Coast, which includes Virginia, Maryland and Florida. From June, 2001 through March, 2004, Ms. Hawthorne was Vice President of the Company, responsible for property operations in Virginia. From July, 1994 to June, 2001, Ms. Hawthorne was a Regional Manager of the Company in Virginia. From August, 1988 to July, 1994, Ms. Hawthorne was a General Manager, Leasing Director and Property Manager for American Office Park Properties. Ms. Hawthorne earned a Bachelor of Arts Degree in International Relations from Pomona College.

Information required by this item with respect to the nominating process, the audit committee and the audit committee financial expert is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Corporate Governance and Board Matters."

Information required by this item with respect to a code of ethics is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption “Corporate Governance and Board Matters.” We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer, which is available on our website at [www.psbusinesssparks.com](http://www.psbusinesssparks.com). The information contained on the Company’s website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K. Any amendments to or waivers of the code of ethics granted to the Company’s executive officers or the controller will be published promptly on our website or by other appropriate means in accordance with SEC rules.

Information required by this item with respect to the compliance with Section 16(a) is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance.”

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “Corporate Governance and Board Matters,” “Executive Compensation,” “Corporate Governance and Board Matters — Compensation Committee Interlocks and Insider Participation” and “Report of the Compensation Committee.”

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item with respect to security ownership of certain beneficial owners and management is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “Stock Ownership of Certain Beneficial Owners and Management.”

The following table sets forth information as of December 31, 2011 on the Company’s equity compensation plans:

<u>Plan Category</u>	<u>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights</u>	<u>(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights</u>	<u>(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</u>
Equity compensation plans approved by security holders . . . . .	626,440	\$49.77	864,722
Equity compensation plans not approved by security holders . . . . .	—	\$ —	—
Total . . . . .	<u>626,440*</u>	<u>\$49.77*</u>	<u>864,722*</u>

\* Amounts include restricted stock units.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “Corporate Governance and Board Matters” and “Certain Relationships and Related Transactions.”

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “Ratification of Independent Registered Public Accountants.”

## PART IV

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

#### a. 1. Financial Statements

The financial statements listed in the accompanying Index to Consolidated Financial Statements and Schedules are filed as part of this report.

#### 2. Financial Statements Schedule

The financial statements schedule listed in the accompanying Index to Consolidated Financial Statements and Schedules are filed as part of this report.

#### 3. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed with or incorporated by reference in this report.

#### b. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed with or incorporated by reference in this report.

#### c. Financial Statement Schedules

Not applicable.

**PS BUSINESS PARKS, INC.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES**  
**(Item 15(a)(1) and Item 15(a)(2))**

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of  
PS Business Parks, Inc.

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PS Business Parks, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PS Business Parks, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
February 24, 2012

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

	December 31,	
	2011	2010
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 4,980	\$ 5,066
Real estate facilities, at cost:		
Land . . . . .	772,933	562,678
Buildings and improvements . . . . .	2,157,729	1,773,682
	2,930,662	2,336,360
Accumulated depreciation . . . . .	(846,799)	(772,407)
	2,083,863	1,563,953
Properties held for disposition, net . . . . .	—	6,671
Land held for development . . . . .	6,829	6,829
	2,090,692	1,577,453
Rent receivable . . . . .	3,198	3,127
Deferred rent receivable . . . . .	23,388	22,277
Other assets . . . . .	16,361	13,134
Total assets . . . . .	\$2,138,619	\$1,621,057
<b>LIABILITIES AND EQUITY</b>		
Accrued and other liabilities . . . . .	\$ 60,940	\$ 53,421
Credit facility . . . . .	185,000	93,000
Term loan . . . . .	250,000	—
Mortgage notes payable . . . . .	282,084	51,511
Total liabilities . . . . .	778,024	197,932
Commitments and contingencies		
Equity:		
PS Business Parks, Inc.'s shareholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 23,942 shares issued and outstanding at December 31, 2011 and 2010 . . . . .	598,546	598,546
Common stock, \$0.01 par value, 100,000,000 shares authorized, 24,128,184 and 24,671,177 shares issued and outstanding at December 31, 2011 and 2010, respectively . . . . .	240	246
Paid-in capital . . . . .	534,322	557,882
Cumulative net income . . . . .	878,704	784,616
Cumulative distributions . . . . .	(832,607)	(747,762)
Total PS Business Parks, Inc.'s shareholders' equity . . . . .	1,179,205	1,193,528
Noncontrolling interests:		
Preferred units . . . . .	5,583	53,418
Common units . . . . .	175,807	176,179
Total noncontrolling interests . . . . .	181,390	229,597
Total equity . . . . .	1,360,595	1,423,125
Total liabilities and equity . . . . .	\$2,138,619	\$1,621,057

See accompanying notes.



**PS BUSINESS PARKS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	For The Years Ended December 31,		
	2011	2010	2009
	(In thousands, except per share data)		
Revenues:			
Rental income . . . . .	\$297,819	\$276,652	\$269,012
Facility management fees . . . . .	684	672	698
Total operating revenues . . . . .	298,503	277,324	269,710
Expenses:			
Cost of operations . . . . .	100,148	89,630	85,039
Depreciation and amortization . . . . .	84,542	78,441	84,011
General and administrative . . . . .	9,036	9,651	6,202
Total operating expenses . . . . .	193,726	177,722	175,252
Other income and (expenses):			
Interest and other income . . . . .	221	333	536
Interest expense . . . . .	(5,455)	(3,534)	(3,552)
Total other income and (expenses) . . . . .	(5,234)	(3,201)	(3,016)
Income from continuing operations . . . . .	99,543	96,401	91,442
Discontinued operations:			
Income from discontinued operations . . . . .	380	468	1,409
Gain on sale of real estate facilities . . . . .	2,717	5,153	1,488
Total discontinued operations . . . . .	3,097	5,621	2,897
Net income . . . . .	\$102,640	\$102,022	\$ 94,339
Net income allocation:			
Net income allocable to noncontrolling interests:			
Noncontrolling interests — common units . . . . .	\$ 15,543	\$ 11,594	\$ 19,730
Noncontrolling interests — preferred units . . . . .	(6,991)	5,103	(2,569)
Total net income allocable to noncontrolling interests . . . . .	8,552	16,697	17,161
Net income allocable to PS Business Parks, Inc.:			
Common shareholders . . . . .	52,162	38,959	59,413
Preferred shareholders . . . . .	41,799	46,214	17,440
Restricted stock unit holders . . . . .	127	152	325
Total net income allocable to PS Business Parks, Inc . . . . .	94,088	85,325	77,178
Net income . . . . .	\$102,640	\$102,022	\$ 94,339
Net income per common share — basic:			
Continuing operations . . . . .	\$ 2.03	\$ 1.41	\$ 2.60
Discontinued operations . . . . .	\$ 0.10	\$ 0.18	\$ 0.10
Net income . . . . .	\$ 2.13	\$ 1.59	\$ 2.70
Net income per common share — diluted:			
Continuing operations . . . . .	\$ 2.02	\$ 1.40	\$ 2.59
Discontinued operations . . . . .	\$ 0.10	\$ 0.17	\$ 0.10
Net income . . . . .	\$ 2.12	\$ 1.58	\$ 2.68
Weighted average common shares outstanding:			
Basic . . . . .	24,516	24,546	21,998
Diluted . . . . .	24,599	24,687	22,128

See accompanying notes.

**PS BUSINESS PARKS, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**

	Preferred Stock		Common Stock		Paid-in Capital	Cumulative Net Income		Cumulative Distributions	Business Parks, Inc.'s		Total PS Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount		Business Parks, Inc.'s Equity	Noncontrolling Interests						
<b>Balances at December 31, 2008</b>													
Issuance of common stock, net of issuance costs	28,250	\$ 706,250	20,459,916	\$204	\$363,587	\$622,113	\$(571,340)		\$1,120,814		\$242,773	\$1,363,587	
Repurchase of preferred stock, net of issuance costs	—	—	3,833,333	38	171,194	—	—	—	171,232		—	171,232	
Repurchase of preferred units, net of issuance costs	(3,208)	(80,204)	—	—	32,788	—	(2,783)	—	(50,199)		—	(50,199)	
Repurchase of common stock	—	—	—	—	9,577	—	—	—	9,577		(21,912)	(12,335)	
Exercise of common stock	—	—	—	—	(230)	—	—	—	(230)		—	(230)	
Exercise of stock options	—	—	35,100	—	1,177	—	—	—	1,177		—	1,177	
Stock compensation, net	—	—	71,160	1	1,015	—	—	—	1,016		—	1,016	
Self registration	—	—	—	—	(75)	—	—	—	(75)		—	(75)	
Net income	—	—	—	—	—	77,178	—	—	77,178		17,161	94,339	
Distributions:													
Preferred stock	—	—	—	—	—	—	(44,662)	(44,662)	(44,662)		—	(44,662)	
Common stock	—	—	—	—	—	—	(39,509)	(39,509)	(39,509)		—	(39,509)	
Noncontrolling interests	—	—	—	—	—	—	—	—	—		(18,704)	(18,704)	
Adjustment to noncontrolling interests in underlying operating partnership	—	—	—	—	(30,640)	—	—	—	(30,640)		30,640	—	
<b>Balances at December 31, 2009</b>	25,042	\$ 626,046	24,399,509	243	548,393	699,291	(658,294)		1,215,679		249,958	1,465,637	
Issuance of preferred stock, net of issuance costs	3,000	75,000	—	—	(2,487)	—	—	—	72,513		—	72,513	
Redemption of preferred stock, net of issuance costs	(4,100)	(102,500)	—	—	3,484	—	(3,484)	—	(102,500)		—	(102,500)	
Redemption of preferred units, net of issuance costs	—	—	—	—	582	—	—	—	582		(20,582)	(20,000)	
Exercise of stock options	—	—	243,936	3	7,780	—	—	—	7,783		—	7,783	
Stock compensation, net	—	—	27,732	—	1,031	—	—	—	1,031		—	1,031	
Net income	—	—	—	—	—	85,325	—	—	85,325		16,697	102,022	
Distributions:													
Preferred stock	—	—	—	—	—	—	(42,730)	(42,730)	(42,730)		—	(42,730)	
Common stock	—	—	—	—	—	—	(43,254)	(43,254)	(43,254)		—	(43,254)	
Noncontrolling interests	—	—	—	—	—	—	—	—	—		(17,377)	(17,377)	
Adjustment to noncontrolling interests in underlying operating partnership	—	—	—	—	(901)	—	—	—	(901)		901	—	
<b>Balances at December 31, 2010</b>	23,942	\$ 598,546	24,671,177	246	557,882	784,616	(747,762)		1,193,528		229,597	1,423,125	
Repurchase of preferred units, net of issuance costs	—	—	—	—	10,107	—	—	—	10,107		(49,194)	(39,087)	
Repurchase of common stock	—	—	(591,500)	(6)	(30,246)	—	—	—	(30,252)		—	(30,252)	
Exercise of stock options	—	—	24,600	—	1,050	—	—	—	1,050		—	1,050	
Stock compensation, net	—	—	23,907	—	1,218	—	—	—	1,218		—	1,218	
Net income	—	—	—	—	—	94,088	—	—	94,088		8,552	102,640	
Distributions:													
Preferred stock	—	—	—	—	—	—	(41,799)	(41,799)	(41,799)		—	(41,799)	
Common stock	—	—	—	—	—	—	(43,046)	(43,046)	(43,046)		—	(43,046)	
Noncontrolling interests	—	—	—	—	—	—	—	—	—		(13,254)	(13,254)	
Adjustment to noncontrolling interests in underlying operating partnership	—	—	—	—	(5,689)	—	—	—	(5,689)		5,689	—	
<b>Balances at December 31, 2011</b>	23,942	\$ 598,546	24,128,184	\$240	\$534,322	\$878,704	\$(832,607)		\$1,179,205		\$181,390	\$1,360,595	

See accompanying notes.

**PS BUSINESS PARKS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For The Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net income	\$ 102,640	\$ 102,022	\$ 94,339
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	84,682	78,868	85,094
In-place lease adjustment	843	571	(252)
Tenant improvement reimbursements net of lease incentives	(769)	(603)	(326)
Amortization of mortgage note premium	(215)	(285)	(271)
Gain on sale of real estate facility	(2,717)	(5,153)	(1,488)
Stock compensation	1,965	2,116	2,900
Decrease (increase) in receivables and other assets	(3,074)	(2,809)	262
Increase (decrease) in accrued and other liabilities	(1,479)	3,214	(633)
Total adjustments	79,236	75,919	85,286
Net cash provided by operating activities	181,876	177,941	179,625
<b>Cash flows from investing activities:</b>			
Capital improvements to real estate facilities	(49,623)	(40,378)	(29,513)
Acquisition of real estate facilities	(297,738)	(296,251)	—
Proceeds from sale of real estate facilities	8,999	9,181	2,557
Net cash used in investing activities	(338,362)	(327,448)	(26,956)
<b>Cash flows from financing activities:</b>			
Borrowings on credit facility	185,000	93,000	—
Borrowings on term loan	250,000	—	—
Note payable to affiliate	121,000	—	—
Repayment of borrowings on credit facility	(93,000)	—	—
Repayment of note payable to affiliate	(121,000)	—	—
Principal payments on mortgage notes payable	(1,032)	(1,091)	(1,022)
Repayment of mortgage note payable	(18,180)	—	(5,128)
Net proceeds from the issuance of preferred stock	—	72,513	—
Net proceeds from the issuance of common stock	—	—	171,232
Proceeds from the exercise of stock options	1,050	7,783	1,177
Shelf registration costs	—	—	(75)
Redemption/repurchase of preferred stock	—	(102,500)	(50,199)
Redemption/repurchase of preferred units	(39,087)	(20,000)	(12,335)
Repurchase of common stock	(30,252)	—	(230)
Distributions paid to common shareholders	(43,046)	(43,254)	(39,509)
Distributions paid to preferred shareholders	(41,799)	(42,730)	(44,662)
Distributions paid to noncontrolling interests — common units	(12,856)	(12,856)	(12,856)
Distributions paid to noncontrolling interests — preferred units	(398)	(4,521)	(5,848)
Net cash provided by (used in) financing activities	156,400	(53,656)	545
Net (decrease) increase in cash and cash equivalents	(86)	(203,163)	153,214
Cash and cash equivalents at the beginning of the year	5,066	208,229	55,015
Cash and cash equivalents at the end of the year	\$ 4,980	\$ 5,066	\$208,229
<b>Supplemental disclosures:</b>			
Interest paid	\$ 5,041	\$ 3,547	\$ 3,523

See accompanying notes.

**PS BUSINESS PARKS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For The Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	(In thousands)		
<b>Supplemental schedule of non-cash investing and financing activities:</b>			
Adjustment to noncontrolling interests in underlying operating partnership:			
Noncontrolling interests — common units .....	\$ 5,689	\$ 901	\$ 30,640
Paid-in capital .....	\$ (5,689)	\$ (901)	\$(30,640)
Gain on repurchase of preferred equity:			
Preferred stock .....	\$ —	\$ —	\$(30,005)
Preferred units .....	\$ (8,748)	\$ —	\$ (8,997)
Paid-in capital .....	\$ 8,748	\$ —	\$ 39,002
Issuance costs related to the redemption/repurchase of preferred equity:			
Cumulative distributions .....	\$ —	\$(3,484)	\$ (2,783)
Noncontrolling interest — common units .....	\$ (1,359)	\$ (582)	\$ (580)
Paid-in capital .....	\$ 1,359	\$ 4,066	\$ 3,363
Mortgage note assumed in property acquisition:			
Real estate facilities .....	\$(250,000)	\$ —	\$ —
Mortgage notes payable .....	\$ 250,000	\$ —	\$ —

See accompanying notes.

**PS BUSINESS PARKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**1. Organization and description of business**

*Organization*

PS Business Parks, Inc. (“PSB”) was incorporated in the state of California in 1990. As of December 31, 2011, PSB owned 76.8% of the common partnership units of PS Business Parks, L.P. (the “Operating Partnership”). The remaining common partnership units are owned by Public Storage (“PS”). PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. PSB and the Operating Partnership are collectively referred to as the “Company.”

*Description of business*

The Company is a fully-integrated, self-advised and self-managed real estate investment trust (“REIT”) that owns, operates, acquires, and develops commercial properties, primarily multi-tenant flex, office and industrial space. As of December 31, 2011, the Company owned and operated 27.2 million rentable square feet of commercial space located in eight states. The Company also manages 1.3 million rentable square feet on behalf of PS.

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

**2. Summary of significant accounting policies**

*Basis of presentation*

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

*Noncontrolling Interests*

The Company’s noncontrolling interests are reported as a component of equity separate from the parent’s equity. Purchases or sales of equity interests that do not result in a change in control are accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest is included in consolidated net income on the face of the income statement and, upon a gain or loss of control, the interest purchased or sold, as well as any interest retained, is recorded at fair value with any gain or loss recognized in earnings.

*Use of estimates*

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

*Allowance for doubtful accounts*

The Company monitors the collectability of its receivable balances including the deferred rent receivable on an ongoing basis. Based on these reviews, the Company maintains an allowance for doubtful accounts for estimated losses resulting from the possible inability of tenants to make contractual rent payments to the Company. A provision for doubtful accounts is recorded during each period. The allowance for doubtful

accounts, which represents the cumulative allowances less write-offs of uncollectible rent, is netted against tenant and other receivables on the consolidated balance sheets. Tenant receivables are net of an allowance for uncollectible accounts totaling \$400,000 at December 31, 2011 and 2010.

#### *Financial instruments*

The methods and assumptions used to estimate the fair value of financial instruments are described below. The Company has estimated the fair value of financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of market value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

The Company considers all highly liquid investments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Due to the short period to maturity of the Company's cash and cash equivalents, accounts receivable, other assets and accrued and other liabilities, the carrying values as presented on the consolidated balance sheets are reasonable estimates of fair value. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates its fair value.

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and receivables. Cash and cash equivalents, which consist primarily of money market investments, are only invested in entities with an investment grade rating. Receivables are comprised of balances due from a large number of customers. Balances that the Company expects to become uncollectible are reserved for or written off.

#### *Real estate facilities*

Real estate facilities are recorded at cost. Costs related to the renovation or improvement of the properties are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Expenditures that are expected to benefit a period greater than two years and exceed \$2,000 are capitalized and depreciated over their estimated useful life. Buildings and improvements are depreciated using the straight-line method over their estimated useful lives, which generally range from five to 30 years. Transaction costs, which include tenant improvements and lease commissions, in excess of \$1,000 for leases with terms greater than one year are capitalized and depreciated over their estimated useful lives. Transaction costs for leases of one year or less or less than \$1,000 are expensed as incurred.

#### *Properties held for disposition*

An asset is classified as an asset held for disposition when it meets certain requirements, which include, among other criteria, the approval of the sale of the asset, the marketing of the asset for sale and the expectation by the Company that the sale will likely occur within the next 12 months. Upon classification of an asset as held for disposition, the net book value of the asset is included on the balance sheet as properties held for disposition, depreciation of the asset is ceased and the operating results of the asset are included in discontinued operations for all periods presented.

#### *Intangible assets/liabilities*

Intangible assets and liabilities include above-market and below-market in-place lease values of acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market and below-market lease values (included in other assets and accrued liabilities in the accompanying consolidated balance sheets) are amortized to rental income over the remaining non-cancelable terms of the respective leases. The Company recorded net amortization of \$843,000, \$571,000 and \$252,000 of intangible assets and liabilities resulting from the above-market and below-market lease values during the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, the value of in-place leases resulted in a net intangible asset of \$6.9 million, net of \$2.3 million of accumulated amortization with a weighted average amortization period of

5.6 years, and a net intangible liability of \$6.4 million, net of \$1.1 million of accumulated amortization with a weighted average amortization period of 4.6 years. As of December 31, 2010, the value of in-place leases resulted in a net intangible asset of \$5.4 million, net of \$2.1 million of accumulated amortization and a net intangible liability of \$2.2 million, net of \$1.5 million of accumulated amortization.

#### *Evaluation of asset impairment*

The Company evaluates its assets used in operations by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying value. When indicators of impairment are present and the sum of the estimated undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on discounting its estimated future cash flows. In addition, the Company evaluates its assets held for disposition for impairment. Assets held for disposition are reported at the lower of their carrying value or fair value, less cost of disposition. At December 31, 2011, the Company did not consider any assets to be impaired.

#### *Asset impairment due to casualty loss*

It is the Company's policy to record as a casualty loss or gain, in the period the casualty occurs, the differential between (a) the book value of assets destroyed and (b) any insurance proceeds that the Company expects to receive in accordance with its insurance contracts. Potential proceeds from insurance that are subject to any uncertainties, such as interpretation of deductible provisions of the governing agreements, the estimation of costs of restoration, or other such items, are treated as contingent proceeds and not recorded until the uncertainties are satisfied.

For the years ended December 31, 2011, 2010 and 2009 no material casualty losses were recorded.

#### *Stock compensation*

All share-based payments to employees, including grants of employee stock options, are recognized as stock compensation in the Company's income statement based on their grant date fair values. See Note 10.

#### *Revenue and expense recognition*

The Company must meet four basic criteria before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services rendered; the fee is fixed or determinable; and collectability is reasonably assured. All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Straight-line rent is recognized for all tenants with contractual fixed increases in rent that are not included on the Company's credit watch list. Deferred rent receivable represents rental revenue recognized on a straight-line basis in excess of billed rents. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as rental income in the period the applicable costs are incurred. Property management fees are recognized in the period earned.

Costs incurred in connection with leasing (primarily tenant improvements and lease commissions) are capitalized and amortized over the lease period.

#### *Gains from sales of real estate facilities*

The Company recognizes gains from sales of real estate facilities at the time of sale using the full accrual method, provided that various criteria related to the terms of the transactions and any subsequent involvement by the Company with the properties sold are met. If the criteria are not met, the Company defers the gains and recognizes them when the criteria are met or using the installment or cost recovery methods as appropriate under the circumstances.

*General and administrative expenses*

General and administrative expenses include executive and other compensation, office expense, professional fees, acquisition transaction costs, state income taxes and other such administrative items.

*Income taxes*

The Company has qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, the Company is not subject to federal income tax to the extent that it distributes its REIT taxable income to its shareholders. A REIT must distribute at least 90% of its taxable income each year. In addition, REITs are subject to a number of organizational and operating requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) based on its taxable income using corporate income tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. The Company believes it met all organization and operating requirements to maintain its REIT status during 2011, 2010 and 2009 and intends to continue to meet such requirements. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

The Company can recognize a tax benefit only if it is “more likely than not” that a particular tax position will be sustained upon examination or audit. To the extent that the “more likely than not” standard has been satisfied, the benefit associated with a position is measured as the largest amount that is greater than 50% likely of being recognized upon settlement. As of December 31, 2011, the Company did not recognize any tax benefit for uncertain tax positions.

*Accounting for preferred equity issuance costs*

The Company records issuance costs as a reduction to paid-in capital on its balance sheet at the time the preferred securities are issued and reflects the carrying value of the preferred equity at the stated value. The Company records issuance costs as non-cash preferred equity distributions at the time it notifies the holders of preferred stock or units of its intent to redeem such shares or units.



*Net income allocation*

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net income allocable to noncontrolling interests:			
Noncontrolling interests — common units: . . . . .			
Continuing operations . . . . .	\$ 14,833	\$ 10,309	\$ 19,012
Discontinued operations . . . . .	710	1,285	718
Total net income allocable to noncontrolling interests — common units . . . . .	<u>15,543</u>	<u>11,594</u>	<u>19,730</u>
Noncontrolling interests — preferred units: . . . . .			
Distributions to preferred unit holders . . . . .	398	4,521	5,848
Issuance costs related to the redemption of preferred units . . . . .	—	582	—
Gain on repurchase of preferred units, net of issuance costs . . . . .	<u>(7,389)</u>	<u>—</u>	<u>(8,417)</u>
Total net income allocable to noncontrolling interests — preferred units . . . . .	<u>(6,991)</u>	<u>5,103</u>	<u>(2,569)</u>
Total net income allocable to noncontrolling interests . . . . .	<u>8,552</u>	<u>16,697</u>	<u>17,161</u>
Net income allocable to PS Business Parks, Inc.:			
Common shareholders: . . . . .			
Continuing operations . . . . .	49,781	34,640	57,247
Discontinued operations . . . . .	<u>2,381</u>	<u>4,319</u>	<u>2,166</u>
Total net income allocable to common shareholders . . . . .	<u>52,162</u>	<u>38,959</u>	<u>59,413</u>
Preferred shareholders: . . . . .			
Distributions to preferred shareholders . . . . .	41,799	42,730	44,662
Issuance costs related to the redemption of preferred stock . . . . .	—	3,484	—
Gain on repurchase of preferred stock, net of issuance costs . . . . .	<u>—</u>	<u>—</u>	<u>(27,222)</u>
Total net income allocable to preferred shareholders . . . . .	<u>41,799</u>	<u>46,214</u>	<u>17,440</u>
Restricted stock unit holders: . . . . .			
Continuing operations . . . . .	121	135	312
Discontinued operations . . . . .	<u>6</u>	<u>17</u>	<u>13</u>
Total net income allocable to restricted stock unit holders . . . . .	<u>127</u>	<u>152</u>	<u>325</u>
Total net income allocable to PS Business Parks, Inc . . . . .	<u>94,088</u>	<u>85,325</u>	<u>77,178</u>
Net income . . . . .	<u>\$102,640</u>	<u>\$102,022</u>	<u>\$ 94,339</u>

### Net income per common share

Per share amounts are computed using the number of weighted average common shares outstanding. “Diluted” weighted average common shares outstanding includes the dilutive effect of stock options and restricted stock units under the treasury stock method. “Basic” weighted average common shares outstanding excludes such effect. The Company’s restricted stock units are participating securities and included in the computation of basic and diluted weighted average common shares outstanding. The Company’s allocation of net income to the restricted stock unit holders are paid non-forfeitable dividends in excess of the expense recorded which results in a reduction in net income allocable to common shareholders and unit holders. Earnings per share has been calculated as follows for the years ended December 31, *(in thousands, except per share amounts)*:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net income allocable to common shareholders . . . . .	\$52,162	\$38,959	\$59,413
Weighted average common shares outstanding:			
Basic weighted average common shares outstanding . . . . .	24,516	24,546	21,998
Net effect of dilutive stock compensation — based on treasury stock method using average market price . . . . .	83	141	130
Diluted weighted average common shares outstanding . . . . .	<u>24,599</u>	<u>24,687</u>	<u>22,128</u>
Net income per common share — Basic . . . . .	<u>\$ 2.13</u>	<u>\$ 1.59</u>	<u>\$ 2.70</u>
Net income per common share — Diluted . . . . .	<u>\$ 2.12</u>	<u>\$ 1.58</u>	<u>\$ 2.68</u>

Options to purchase 92,000, 78,000 and 126,000 shares for the years ended December 31 2011, 2010 and 2009, respectively, were not included in the computation of diluted net income per share because such options were considered anti-dilutive.

### Segment reporting

The Company views its operations as one segment.

### Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 2010 and 2009 in order to conform to the 2011 presentation.

### 3. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2011, 2010, and 2009 is as follows (*in thousands*):

	<u>Land</u>	<u>Buildings and Equipment</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balances at December 31, 2008	\$491,536	\$1,501,161	\$(630,318)	\$1,362,379
Capital improvements, net	—	29,513	—	29,513
Disposals	—	(11,267)	11,267	—
Depreciation expense	—	—	(85,094)	(85,094)
Transfer to properties held for dispositions	—	(215)	999	784
Balances at December 31, 2009	491,536	1,519,192	(703,146)	1,307,582
Acquisition of real estate facilities	71,142	223,428	—	294,570
Capital improvements, net	—	40,378	—	40,378
Disposals	—	(9,237)	9,237	—
Depreciation expense	—	—	(78,868)	(78,868)
Transfer to properties held for dispositions	—	(79)	370	291
Balances at December 31, 2010	562,678	1,773,682	(772,407)	1,563,953
Acquisition of real estate facilities	210,255	344,760	—	555,015
Capital improvements, net	—	49,624	—	49,624
Disposals	—	(10,150)	10,150	—
Depreciation expense	—	—	(84,682)	(84,682)
Transfer to properties held for dispositions	—	(187)	140	(47)
Balances at December 31, 2011	<u>\$772,933</u>	<u>\$2,157,729</u>	<u>\$(846,799)</u>	<u>\$2,083,863</u>

The unaudited basis of real estate facilities for federal income tax purposes was approximately \$2.0 billion at December 31, 2011. The Company had approximately 25.2% of its properties, in terms of net book value, encumbered by mortgage debt at December 31, 2011.

On December 20, 2011, the Company acquired a 5.3 million square foot industrial and flex portfolio located in the Northern California Bay Area (the "Portfolio"), with concentrations in Oakland, Hayward, Fremont, Milpitas, San Jose, Santa Clara and Sunnyvale, for an aggregate purchase price of \$520.0 million. In connection with the transaction, the Company assumed a \$250.0 million mortgage note described in Note 6. The Company also obtained a \$250.0 million unsecured three-year term loan described in Note 5.

The following table summarizes the assets acquired and liabilities assumed for the Portfolio acquisition during the year ended December 31, 2011 (*in thousands*):

Land	\$ 202,131
Buildings and improvements	320,210
Above-market in-place lease value	2,372
Below-market in-place lease value	(4,713)
Total purchase price	520,000
Mortgage note assumed	(250,000)
Net operating assets acquired and liabilities assumed	5,171
Total cash paid	<u>\$ 275,171</u>

The results of operations of the Portfolio acquired have been included in our consolidated financial statements since the date of acquisition of December 20, 2011. The unaudited pro forma data presented below assumes that the Portfolio acquisition occurred as of the beginning of the respective periods, and includes pro forma adjustments to (i) increase depreciation expense to reflect our book basis for buildings and improvements acquired, (ii) increase amortization expense to reflect the above-market and below-market in-place lease value acquired, (iii) increase interest expense to reflect the financing of the Portfolio acquisition related to the

\$250.0 million mortgage note assumption, borrowings from the term loan and credit facility. There was \$1.2 million and \$838,000 of rental income and net income, respectively, related to the Portfolio acquisition for the year ended December 31, 2011 reported in the Company's consolidated statements of income. The Company's unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the Portfolio acquisition been consummated at the beginning of the periods presented.

	<b>For The Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Pro Forma Revenues .....	\$337,042	\$318,146
Pro Forma Net income .....	\$ 95,595	\$ 91,088
Pro Forma Net income per common share:		
Basic .....	\$ 1.91	\$ 1.24
Diluted .....	\$ 1.90	\$ 1.24

On October 13, 2011, the Company acquired an 80,000 square foot multi-tenant office building in Las Colinas, Texas, for \$2.8 million. On August 19, 2011, the Company acquired a 46,000 square foot multi-tenant flex building located within its Miami International Commerce Center in Miami, Florida, for \$3.5 million. On June 1, 2011, the Company acquired a 140,000 square foot multi-tenant office building, known as the Warren Building, located in Tysons Corner, Virginia, for \$27.1 million. In connection with this purchase, the Company received a \$298,000 credit for committed tenant improvements and leasing commissions. The Company incurred and expensed acquisition transaction costs of \$3.1 million for the year ended December 31, 2011.

On December 15, 2010, the Company acquired Westpark Business Campus, a seven-building multi-tenant office park aggregating 735,000 square feet in Tysons Corner, Virginia, for \$140.0 million. In connection with this purchase, the Company received a \$1.9 million credit for committed tenant improvements. On July 30, 2010, the Company acquired a two-building multi-tenant office park, known as Tysons Corporate Center, aggregating 270,000 square feet in Tysons Corner, Virginia, for \$35.4 million. On June 18, 2010, the Company acquired Parklawn Business Park, a 232,000 square foot multi-tenant office and flex park located in Rockville, Maryland, for \$23.4 million. On April 21, 2010, the Company acquired a portfolio of assets in Austin, Texas, aggregating 704,000 square feet of multi-tenant flex parks for \$42.9 million. In connection with this purchase, the Company received a \$129,000 credit for committed tenant improvements. On March 16, 2010, the Company acquired Shady Grove Executive Center, a 350,000 square foot multi-tenant office park located in Rockville, Maryland, for \$60.0 million. In connection with this purchase, the Company received a \$1.6 million credit for committed tenant improvements and lease commissions. The Company incurred and expensed acquisition transaction costs of \$3.3 million for the year ended December 31, 2010. The Company did not acquire any assets or assume any liabilities during the year ended December 31, 2009.

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

	<b>2011</b>	<b>2010</b>
Land .....	\$ 210,255	\$ 71,142
Buildings and improvements .....	344,760	223,428
Above-market in-place lease value .....	2,915	6,304
Below-market in-place lease value .....	(4,768)	(2,348)
Total purchase price .....	553,162	298,526
Mortgage noted assumed .....	(250,000)	—
Net operating assets acquired and liabilities assumed .....	(5,424)	(2,275)
Total cash paid .....	<u>\$ 297,738</u>	<u>\$296,251</u>

The purchase price of acquired properties is recorded to land, buildings and improvements and intangible assets and liabilities associated with in-place leases (including tenant improvements, unamortized lease commissions, value of above-market and below-market leases, acquired in-place lease values, and tenant

relationships, if any) based on their respective estimated fair values. Acquisition-related costs are expensed as incurred.

In determining the fair value of the tangible assets of the acquired properties, management considers the value of the properties as if vacant as of the acquisition date. Management must make significant assumptions in determining the value of assets acquired and liabilities assumed. Using different assumptions in the recording of the purchase cost of the acquired properties would affect the timing of recognition of the related revenue and expenses. Amounts recorded to land are derived from comparable sales of land within the same region. Amounts recorded to buildings and improvements, tenant improvements and unamortized lease commissions are based on current market replacement costs and other market information. The amount recorded to acquired in-place leases is determined based on management's assessment of current market conditions and the estimated lease-up periods for the respective spaces.

In addition to the 2010 acquisitions, the Company also completed construction on a parcel of land within the Miami International Commerce Center in Miami, Florida, which added 75,000 square feet of rentable small tenant industrial space.

In August, 2011, the Company completed the sale of Westchase Corporate Park, a 177,000 square foot flex park consisting of 13 buildings in Houston, Texas, for a gross sales price of \$9.8 million, resulting in a net gain of \$2.7 million.

In January, 2010, the Company completed the sale of a 131,000 square foot office building located in Houston, Texas, for a gross sales price of \$10.0 million, resulting in a net gain of \$5.2 million.

In May, 2009, the Company sold 3.4 acres of land held for development in Portland, Oregon, for a gross sales price of \$2.7 million, resulting in a net gain of \$1.5 million.

The following table summarizes the condensed results of operations for the properties sold during 2011, 2010 and 2009 (*in thousands*):

	<u>For the Years Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Rental income .....	\$1,097	\$1,856	\$ 4,460
Cost of operations .....	(577)	(961)	(1,968)
Depreciation .....	(140)	(427)	(1,083)
Income from discontinued operations .....	<u>\$ 380</u>	<u>\$ 468</u>	<u>\$ 1,409</u>

In addition to minimum rental payments, tenants reimburse the Company for their pro rata share of specified operating expenses, which amounted to \$486,000, \$719,000, and \$942,000, for the years ended December 31, 2011, 2010 and 2009, respectively. These amounts are included as rental income in the table presented above.

#### 4. Leasing activity

The Company leases space in its real estate facilities to tenants primarily under non-cancelable leases generally ranging from one to 10 years. Future minimum rental revenues excluding recovery of operating expenses as of December 31, 2011 under these leases are as follows (*in thousands*):

2012 .....	\$244,315
2013 .....	184,735
2014 .....	125,839
2015 .....	82,629
2016 .....	57,830
Thereafter .....	<u>87,428</u>
Total .....	<u>\$782,776</u>

In addition to minimum rental payments, certain tenants reimburse the Company for their pro rata share of specified operating expenses. Such reimbursements amounted to \$59.7 million, \$57.3 million and \$54.5 million, for the years ended December 31, 2011, 2010 and 2009, respectively. These amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for 6.5% of total leased square footage are subject to termination options which include leases accounting for 1.9% of total leased square footage having termination options exercisable through December 31, 2012 (unaudited). In general, these leases provide for termination payments should the termination options be exercised. The above table is prepared assuming such options are not exercised.

## 5. Bank loans

On August 3, 2011, the Company modified the terms of its line of credit (the "Credit Facility") with Wells Fargo Bank. The modification of the Credit Facility increased the borrowing limit to \$250.0 million and extended the expiration to August 1, 2015. The modified rate of interest charged on borrowings is equal to a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 1.00% to LIBOR plus 1.85% depending on the Company's credit ratings. Currently, the Company's rate under the Credit Facility is LIBOR plus 1.10%. In addition, the Company is required to pay an annual facility fee ranging from 0.15% to 0.45% of the borrowing limit depending on the Company's credit ratings (currently 0.15%). As of December 31, 2011, the Company had \$185.0 million outstanding on the Credit Facility at an interest rate of 1.41%. Subsequent to December 31, 2011, the Company repaid \$85.0 million on the Credit Facility reducing the outstanding balance to \$100.0 million as of February 24, 2012. The Company had \$93.0 million outstanding on the Credit Facility at an interest rate of 2.11% at December 31, 2010. The Company had \$1.1 million and \$356,000 of unamortized commitment fees as of December 31, 2011 and 2010, respectively. The Credit Facility requires the Company to meet certain covenants, with which the Company was in compliance at December 31, 2011 and 2010. Interest on outstanding borrowings is payable monthly.

In connection with the Northern California Portfolio acquisition described in Note 3, the Company entered into a term loan on December 20, 2011 with Wells Fargo Bank, National Association, as Administrative Agent and the lenders named therein (the "Term Loan"). Pursuant to the Term Loan, the Company borrowed \$250.0 million for a three year term through December 20, 2014. However, the maturity date of the Term Loan Agreement can be extended by one year at the Company's election. Interest on the amounts borrowed under the Term Loan will accrue based on an applicable rate ranging from LIBOR plus 1.15% to LIBOR plus 2.25% depending on the Company's credit ratings. Currently, the Company's rate under the Term Loan is LIBOR plus 1.20% (1.50% at December 31, 2011). The Company had \$729,000 of unamortized commitment fees as of December 31, 2011. The covenants and events of default contained in the Credit Facility are incorporated into the Term Loan by reference, and the Term Loan is cross-defaulted to the Credit Facility. The Term Loan can be repaid in full or part prior to its maturity without penalty.

## 6. Mortgage notes payable

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
5.73% mortgage note, secured by one commercial property with a net book value of \$28.0 million, principal and interest payable monthly, due March, 2013 .....	\$ 13,436	\$13,729
5.52% mortgage note, secured by one commercial property with a net book value of \$15.1 million, principal and interest payable monthly, due May, 2013 .....	9,311	9,572
5.68% mortgage note, secured by one commercial property with a net book value of \$16.8 million, principal and interest payable monthly, due May, 2013 .....	9,337	9,594
5.45% mortgage note, secured by 4.8 million square feet with a net book value of \$464.6 million, interest payable monthly, due December, 2016 .....	250,000	—
6.15% mortgage note, repaid October, 2011 (1) .....	—	15,950
5.61% mortgage note, repaid January, 2011(2) .....	—	2,666
Total .....	<u>\$282,084</u>	<u>\$51,511</u>

- (1) The unamortized premium was \$209,000 as of December 31, 2010.
- (2) The unamortized premium was \$6,000 as of December 31, 2010.

At December 31, 2011, mortgage notes payable had a weighted average interest rate of 5.47% and a weighted average maturity of 4.6 years with principal payments as follows (*in thousands*):

2012 .....	\$ 856
2013 .....	31,228
2014 .....	—
2015 .....	—
2016 .....	<u>250,000</u>
Total .....	<u>\$282,084</u>

## 7. Noncontrolling interests

As described in Note 2, the Company reports noncontrolling interests within equity in the consolidated financial statements, but separate from the Company's shareholders' equity. In addition, net income allocable to noncontrolling interests is shown as a reduction from net income in calculating net income allocable to common shareholders.

### *Common partnership units*

The Company presents the accounts of PSB and the Operating Partnership on a consolidated basis. Ownership interests in the Operating Partnership that can be redeemed for common stock, other than PSB's interest, are classified as noncontrolling interests — common units in the consolidated financial statements. Net income allocable to noncontrolling interests — common units consists of the common units' share of the consolidated operating results after allocation to preferred units and shares. Beginning one year from the date of admission as a limited partner (common units) and subject to certain limitations described below, each limited partner other than PSB has the right to require the redemption of its partnership interest.

A limited partner (common units) that exercises its redemption right will receive cash from the Operating Partnership in an amount equal to the market value (as defined in the Operating Partnership Agreement) of the partnership interests redeemed. In lieu of the Operating Partnership redeeming the common units for cash, PSB, as general partner, has the right to elect to acquire the partnership interest directly from a limited partner exercising its redemption right, in exchange for cash in the amount specified above or by issuance of one share of PSB common stock for each unit of limited partnership interest redeemed.

A limited partner (common units) cannot exercise its redemption right if delivery of shares of PSB common stock would be prohibited under the applicable articles of incorporation, or if the general partner believes that there is a risk that delivery of shares of common stock would cause the general partner to no longer qualify as a REIT, would cause a violation of the applicable securities laws, or would result in the Operating Partnership no longer being treated as a partnership for federal income tax purposes.

At December 31, 2011, there were 7,305,355 common units owned by PS, which are accounted for as noncontrolling interests. On a fully converted basis, assuming all 7,305,355 noncontrolling interests — common units were converted into shares of common stock of PSB at December 31, 2011, the noncontrolling interests — common units would convert into 23.2% of the common shares outstanding. Combined with PS's common stock ownership, on a fully converted basis, PS has a combined ownership of 41.7% of the Company's common equity. At the end of each reporting period, the Company determines the amount of equity (book value of net assets) which is allocable to the noncontrolling interest based upon the ownership interest, and an adjustment is made to the noncontrolling interest, with a corresponding adjustment to paid-in capital, to reflect the noncontrolling interests' equity interest in the Company.

### Preferred partnership units

Through the Operating Partnership, the Company had the following preferred units outstanding as of December 31, 2011 and 2010:

Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	December 31, 2011		December 31, 2010	
				Units Outstanding	Amount (in thousands)	Units Outstanding	Amount (in thousands)
Series N . . . . .	December, 2005	December, 2010	7.125%	223,300	\$5,583	223,300	\$ 5,583
Series J . . . . .	May & June, 2004	N/A	7.500%	—	—	1,710,000	42,750
Series Q . . . . .	March, 2007	N/A	6.550%	—	—	203,400	5,085
Total . . . . .				<u>223,300</u>	<u>\$5,583</u>	<u>2,136,700</u>	<u>\$53,418</u>

In February, 2011, the Company paid an aggregate of \$39.1 million to repurchase 1,710,000 units of its 7.50% Series J Cumulative Redeemable Preferred Units and 203,400 units of its 6.55% Series Q Cumulative Redeemable Preferred Units for a weighted average purchase price of \$20.43 per unit. The aggregate par value of the repurchased preferred units was \$47.8 million, which generated a gain of \$7.4 million, net of original issuance costs of \$1.4 million, which was added to net income allocable to common shareholders and unit holders for the year ended December 31, 2011.

On May 12, 2010, the Company redeemed 800,000 units of its 7.950% Series G Cumulative Redeemable Preferred Units for \$20.0 million. The Company reported the excess of the redemption amount over the carrying amount of \$582,000, equal to the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2010.

During the first quarter of 2009, the Company paid \$12.3 million to repurchase 853,300 units of various series of Cumulative Redeemable Preferred Units for a weighted average purchase price of \$14.46 per unit. The aggregate par value of the repurchased preferred units was \$21.3 million, which generated a gain of \$8.4 million, net of original issuance costs of \$580,000, which was added to net income allocable to common shareholders and unit holders for the year ended December 31, 2009.

The Operating Partnership has the right to redeem preferred units on or after the fifth anniversary of the applicable issuance date at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. The preferred units are exchangeable for Cumulative Redeemable Preferred Stock of the respective series of PSB on or after the tenth anniversary of the date of issuance at the option of the Operating Partnership or a majority of the holders of the respective preferred units. The Cumulative Redeemable Preferred Stock will have the same distribution rate and par value as the corresponding preferred units and will otherwise have equivalent terms to the other series of preferred stock described in Note 9.

As of December 31, 2011 and 2010, the Company had \$149,000 and \$1.5 million, respectively, of deferred costs in connection with the issuance of preferred units, which the Company will report as additional distributions upon notice of redemption.

### 8. Related party transactions

On February 9, 2011, the Company entered into an agreement with PS to borrow \$121.0 million with a maturity date of August 9, 2011 at an interest rate of LIBOR plus 0.85%. The Company repaid, in full, the note payable to PS upon maturity. Interest expense under this note payable was \$664,000 for the year ended December 31, 2011.

Concurrent with the public offering that closed August 14, 2009, as discussed in Note 9, the Company sold 383,333 shares of common stock to PS for net proceeds of \$17.8 million.

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PS for certain administrative services, which are allocated to PS in accordance with a methodology intended to fairly allocate those costs. These costs totaled \$442,000, \$543,000 and \$372,000 for the years ended December 31, 2011, 2010 and 2009, respectively.



The Operating Partnership manages industrial, office and retail facilities for PS. These facilities, all located in the United States, operate under the “Public Storage” or “PS Business Parks” names. The PS Business Parks name and logo is owned by PS and licensed to the Company under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six months written notice.

Under the property management contract with PS, the Operating Partnership is compensated based on a percentage of the gross revenues of the facilities managed. Under the supervision of the property owners, the Operating Partnership coordinates rental policies, rent collections, marketing activities, the purchase of equipment and supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, the Operating Partnership assists and advises the property owners in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including property managers and leasing, billing and maintenance personnel.

The property management contract with PS is for a seven-year term with the agreement automatically extending for an additional one-year period upon each one-year anniversary of its commencement (unless cancelled by either party). Either party can give notice of its intent to cancel the agreement upon expiration of its current term. Management fee revenues under this contract were \$684,000, \$672,000 and \$698,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

PS also provides property management services for the self-storage component of two assets owned by the Company. These self-storage facilities, located in Palm Beach County, Florida, operate under the “Public Storage” name.

Under the property management contract, PS is compensated based on a percentage of the gross revenues of the facilities managed. Under the supervision of the Company, PS coordinates rental policies, rent collections, marketing activities, the purchase of equipment and supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, PS assists and advises the Company in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including on-site managers, assistant managers and associate managers.

Either the Company or PS can cancel the property management contract upon 60 days notice. Management fee expenses under the contract were \$52,000, \$48,000 and \$50,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company had amounts due from PS of \$205,000 and \$530,000 at December 31, 2011 and 2010, respectively, for these contracts, as well as for certain operating expenses paid by the Company on behalf of PS.

## 9. Shareholders’ equity

### *Preferred stock*

As of December 31, 2011 and 2010, the Company had the following series of preferred stock outstanding:

Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	December 31, 2011		December 31, 2010	
				Shares Outstanding	Amount (in thousands)	Shares Outstanding	Amount (in thousands)
Series H	January & October, 2004	January, 2009	7.000%	6,340,776	\$158,520	6,340,776	\$158,520
Series I	April, 2004	April, 2009	6.875%	2,745,050	68,626	2,745,050	68,626
Series M	May, 2005	May, 2010	7.200%	3,182,000	79,550	3,182,000	79,550
Series O	June & August, 2006	June, 2011	7.375%	3,384,000	84,600	3,384,000	84,600
Series P	January, 2007	January, 2012	6.700%	5,290,000	132,250	5,290,000	132,250
Series R	October, 2010	October, 2015	6.875%	3,000,000	75,000	3,000,000	75,000
Total				<u>23,941,826</u>	<u>\$598,546</u>	<u>23,941,826</u>	<u>\$598,546</u>

Subsequent to December 31, 2011, the Company issued \$230.0 million or 9,200,000 depositary shares, each representing 1/1,000 of a share of the 6.45% Cumulative Preferred Stock, Series S, at \$25.00 per depositary share. Additionally, the Company completed the redemption of its 7.20% Cumulative Preferred Stock, Series M, at its par value of \$79.6 million and its 7.375% Cumulative Preferred Stock, Series O, at its par value of \$84.6 million. The Company will report the excess of the redemption amount over the carrying amount of \$5.3 million,

equal to the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders during the first quarter of 2012.

On October 15, 2010, the Company issued 3,000,000 depositary shares, each representing 1/1,000 of a share of the 6.875% Cumulative Preferred Stock, Series R, at \$25.00 per depositary share for gross proceeds of \$75.0 million.

On November 8, 2010, the Company redeemed 1,935,000 depositary shares, each representing 1/1,000 of a share of the 7.60% Cumulative Preferred Stock, Series L, for \$48.4 million. The Company reported the excess of the redemption amount over the carrying amount of \$1.6 million, equal to the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2010.

On June 7, 2010, the Company redeemed 2,165,000 depositary shares, each representing 1/1,000 of a share of the 7.950% Cumulative Preferred Stock, Series K, for \$54.1 million. The Company reported the excess of the redemption amount over the carrying amount of \$1.9 million, equal to the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2010.

During the first quarter of 2009, The Company paid \$50.2 million to repurchase 3,208,174 depositary shares, each representing 1/1,000 of a share of various series of Cumulative Redeemable Preferred Stock for a weighted average purchase price of \$15.65 per depositary share. The aggregate par value of the repurchased preferred stock was \$80.2 million, which generated a gain of \$27.2 million, net of original issuance costs of \$2.8 million, was added to net income allocable to common shareholders and unit holders for the year ended December 31, 2009.

The Company paid \$41.8 million, \$42.7 million and \$44.7 million in distributions to its preferred shareholders for the years ended December 31, 2011, 2010 and 2009, respectively.

Holder of the Company's preferred stock will not be entitled to vote on most matters, except under certain conditions. In the event of a cumulative arrearage equal to six quarterly dividends, the holders of the preferred stock will have the right to elect two additional members to serve on the Company's Board of Directors until all events of default have been cured. At December 31, 2011, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the preferred stock is not redeemable prior to the previously noted redemption dates. On or after the respective redemption dates, the respective series of preferred stock will be redeemable, at the option of the Company, in whole or in part, at \$25.00 per depositary share, plus any accrued and unpaid dividends. As of December 31, 2011 and 2010, the Company had \$19.7 million of deferred costs in connection with the issuance of preferred stock, which the Company will report as additional non-cash distributions upon notice of its intent to redeem such shares.

#### *Common stock*

On August 14, 2009, the Company sold 3,450,000 shares of common stock in a public offering and concurrently sold 383,333 shares of common stock to PS. The aggregate net proceeds were \$171.2 million.

The Company's Board of Directors previously authorized the repurchase, from time to time, of up to 6.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the year ended December 31, 2011, the Company repurchased 591,500 shares of common stock at an aggregate cost of \$30.3 million, or an average cost per share of \$51.14. Since inception of the program, the Company has repurchased an aggregate of 4.9 million shares of common stock at an aggregate cost of \$183.9 million or an average cost per share of \$37.64. Under existing board authorizations, the Company can repurchase an additional 1.6 million shares. No shares of common stock were repurchased under this program during the years ended December 31, 2010 and 2009.

The Company paid \$43.0 million (\$1.76 per common share), \$43.3 million (\$1.76 per common share) and \$39.5 million (\$1.76 per common share) in distributions to its common shareholders for the years ended December 31, 2011, 2010 and 2009, respectively. The portion of the distributions classified as ordinary income was 100.0% for the years ended December 31, 2011, 2010 and 2009. No portion of the distributions was classified as long-term capital gain income for the years ended December 31, 2011, 2010 and 2009. Percentages in the two preceding sentences are unaudited.

### Equity stock

In addition to common and preferred stock, the Company is authorized to issue 100.0 million shares of Equity Stock. The Articles of Incorporation provide that the Equity Stock may be issued from time to time in one or more series and give the Board of Directors broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock.

### 10. Stock compensation

PSB has a 1997 Stock Option and Incentive Plan (the “1997 Plan”) and a 2003 Stock Option and Incentive Plan (the “2003 Plan”), each covering 1.5 million shares of PSB’s common stock. Under the 1997 Plan and 2003 Plan, PSB has granted non-qualified options to certain directors, officers and key employees to purchase shares of PSB’s common stock at a price not less than the fair market value of the common stock at the date of grant. Additionally, under the 1997 Plan and 2003 Plan, PSB has granted restricted stock units to officers and key employees.

Generally, options under the 1997 Plan vest over a three-year period from the date of grant at the rate of one third per year and expire 10 years after the date of grant. Options under the 2003 Plan vest over a five-year period from the date of grant at the rate of one fifth per year and expire 10 years after the date of grant. Generally, restricted stock units granted are subject to a six-year vesting schedule, none in year one and 20% for each of the next five years. Certain restricted stock unit grants are subject to a four-year vesting schedule, with either cliff vesting after year four or none in year one and 33.3% for each of the next three years.

The weighted average grant date fair value of options granted in the years ended December 31, 2011, 2010 and 2009 were \$5.38 per share, \$6.08 per share and \$4.14 per share, respectively. The Company has calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants for the years ended December 31, 2011, 2010 and 2009, respectively; a dividend yield of 2.9%, 3.3% and 4.4%; expected volatility of 13.9%, 17.5% and 19.4%; expected life of five years; and risk-free interest rates of 1.7%, 2.4% and 2.0%.

The weighted average grant date fair value of restricted stock units granted during the years ended December 31, 2011, 2010 and 2009 were \$51.63, \$54.44 and \$35.00, respectively. The Company calculated the fair value of each restricted stock unit grant using the market value on the date of grant.

At December 31, 2011, there were a combined total of 865,000 options and restricted stock units authorized to grant. Information with respect to outstanding options and nonvested restricted stock units granted under the 1997 Plan and 2003 Plan is as follows:

Options:	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2008 . . . . .	556,353	\$39.00		
Granted . . . . .	26,000	\$40.50		
Exercised . . . . .	(35,100)	\$33.53		
Forfeited . . . . .	(4,501)	\$38.16		
Outstanding at December 31, 2009 . . . . .	<u>542,752</u>	<u>\$39.43</u>		
Granted . . . . .	291,000	\$52.79		
Exercised . . . . .	(243,936)	\$31.90		
Forfeited . . . . .	(12,000)	\$58.19		
Outstanding at December 31, 2010 . . . . .	<u>577,816</u>	<u>\$48.95</u>		
Granted . . . . .	14,000	\$60.66		
Exercised . . . . .	(24,600)	\$42.67		
Forfeited . . . . .	—	\$ —		
Outstanding at December 31, 2011 . . . . .	<u>567,216</u>	<u>\$49.51</u>	5.68 Years	\$ 4,041
Exercisable at December 31, 2011 . . . . .	<u>307,216</u>	<u>\$46.70</u>	3.73 Years	\$ 3,148

<b>Restricted Stock Units:</b>	<b>Number of Units</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested at December 31, 2008 .....	229,688	\$54.81
Granted .....	11,700	\$35.00
Vested .....	(114,797)	\$53.94
Forfeited .....	(7,500)	\$55.96
Nonvested at December 31, 2009 .....	<u>119,091</u>	<u>\$53.64</u>
Granted .....	13,900	\$54.44
Vested .....	(44,857)	\$53.84
Forfeited .....	(2,460)	\$55.90
Nonvested at December 31, 2010 .....	<u>85,674</u>	<u>\$53.60</u>
Granted .....	8,700	\$51.63
Vested .....	(29,890)	\$55.88
Forfeited .....	(5,260)	\$52.70
Nonvested at December 31, 2011 .....	<u><u>59,224</u></u>	<u><u>\$52.24</u></u>

Included in the Company's consolidated statements of income for the years ended December 31, 2011, 2010 and 2009 was \$486,000, \$509,000 and \$467,000, respectively, in net compensation expense related to stock options. Net compensation expense of \$920,000, \$1.5 million and \$2.3 million related to restricted stock units was recognized during the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011, there was \$1.2 million of unamortized compensation expense related to stock options expected to be recognized over a weighted average period of 3.2 years. As of December 31, 2011, there was \$2.1 million of unamortized compensation expense related to restricted stock units expected to be recognized over a weighted average period of 3.4 years.

Cash received from 24,600 stock options exercised for the year ended December 31, 2011 was \$1.1 million. Cash received from 243,936 stock options exercised during the year ended December 31, 2010 was \$7.8 million. Cash received from 35,100 stock options exercised during the year ended December 31, 2009 was \$1.2 million. The aggregate intrinsic value of the stock options exercised during the years ended December 31, 2011, 2010 and 2009 was \$457,000, \$5.3 million and \$453,000, respectively.

During the year ended December 31, 2011, 29,890 restricted stock units vested; in settlement of these units, 18,907 shares were issued, net of shares applied to payroll taxes. The aggregate fair value of the shares vested for the year ended December 31, 2011 was \$1.7 million. During the year ended December 31, 2010, 44,857 restricted stock units vested; in settlement of these units, 27,732 shares were issued, net of shares applied to payroll taxes. The aggregate fair value of the shares vested for the year ended December 31, 2010 was \$2.4 million. During the year ended December 31, 2009, 114,797 restricted stock units vested; in settlement of these units, 71,160 shares were issued, net of shares applied to payroll taxes. The aggregate fair value of the shares vested for the year ended December 31, 2009 was \$4.3 million.

In May of 2004, the shareholders of the Company approved the issuance of up to 70,000 shares of common stock under the Retirement Plan for Non-Employee Directors (the "Director Plan"). Under the Director Plan, the Company grants 1,000 shares of common stock for each year served as a director up to a maximum of 5,000 shares issued upon retirement. In December of 2011, the Director Plan was amended to increase the maximum shares from 5,000 shares to 7,000 shares, 1,000 shares of common stock for each year served as a director. The Company recognizes compensation expense with regards to grants to be issued in the future under the Director Plan. As a result, included in the Company's consolidated statements of income was \$559,000, \$153,000 and \$167,000 in compensation expense for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, 2010 and 2009, there was \$514,000, \$339,000 and \$252,000, respectively, of unamortized compensation expense related to these shares. In January, 2011, the Company issued 5,000 shares to a director upon retirement with an aggregate fair value of \$290,000. No shares were issued during the years ended December 31, 2010 and 2009.

**11. Supplementary quarterly financial data (unaudited)**

	Three Months Ended			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
	(In thousands, except per share data)			
Revenues .....	\$73,512	\$73,053	\$76,562	\$74,692
Cost of operations .....	\$25,708	\$24,213	\$24,884	\$25,343
Net income allocable to common shareholders .....	\$16,562	\$11,374	\$15,444	\$ 8,801
Net income per share:				
Basic .....	\$ 0.67	\$ 0.46	\$ 0.63	\$ 0.36
Diluted .....	\$ 0.67	\$ 0.46	\$ 0.63	\$ 0.36

	Three Months Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
	(In thousands, except per share data)			
Revenues .....	\$66,648	\$69,432	\$69,773	\$70,799
Cost of operations .....	\$22,741	\$21,476	\$22,743	\$22,670
Net income allocable to common shareholders .....	\$11,740	\$ 9,229	\$ 9,608	\$ 8,375
Net income per share:				
Basic .....	\$ 0.48	\$ 0.38	\$ 0.39	\$ 0.34
Diluted .....	\$ 0.48	\$ 0.37	\$ 0.39	\$ 0.34

**12. Commitments and contingencies**

Substantially all of the Company’s properties have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any probable or reasonably possible environmental costs that management believes would have a material adverse effect on the Company’s business, assets or results of operations, nor is the Company aware of any potentially material environmental liability.

The Company currently is neither subject to any other material litigation nor, to management’s knowledge, is any material litigation currently threatened against the Company other than routine litigation and administrative proceedings arising in the ordinary course of business.

**13. 401(K) Plan**

The Company has a 401(K) savings plan (the “Plan”) in which all eligible employees may participate. The Plan provides for the Company to make matching contributions to all eligible employees up to 4% of their annual salary dependent on the employee’s level of participation. For the years ended December 31, 2011, 2010 and 2009, \$328,000, \$297,000 and \$294,000, respectively, was charged as expense related to this plan.

**PS BUSINESS PARKS, INC.**  
**SCHEDULE III—REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2011**  
**(DOLLARS IN THOUSANDS)**

Description	Location	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition			Gross Amount at Which Carried at December 31, 2011			Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
		Encumbrances	Buildings and Improvements		Buildings and Improvements	Buildings and Improvements	Land	Land	Buildings and Improvements	Total			
			\$	\$									
Mesa	Mesa, AZ	—	675	1,692	2,874	675	4,566	5,241	3,139	1999/2003	5-30		
Corporate/Metro Park Phoenix	Phoenix, AZ	—	5,130	17,514	2,427	5,130	19,941	25,071	9,875	1999	5-30		
Tempe/McKellips	Tempe, AZ	—	195	522	625	195	1,147	1,342	743	1997	5-30		
University	Tempe, AZ	—	2,805	7,107	6,027	2,805	13,134	15,939	8,508	1997	5-30		
Concord Business Park	Concord, CA	—	12,454	20,491	—	12,454	20,491	32,945	—	2011	5-30		
Bayview Business Park	Fremont, CA	7,300	4,990	4,831	—	4,990	4,831	9,821	—	2011	5-30		
Christy Business Park	Fremont, CA	14,200	11,450	16,254	—	11,450	16,254	27,704	—	2011	5-30		
Industrial Drive Distribution Center	Fremont, CA	5,300	7,482	6,812	—	7,482	6,812	14,294	—	2011	5-30		
Bay Center Business Park	Hayward, CA	27,500	19,052	50,501	—	19,052	50,501	69,553	—	2011	5-30		
Cabot Distribution Center	Hayward, CA	9,300	5,859	10,811	—	5,859	10,811	16,670	—	2011	5-30		
Diablo Business Park	Hayward, CA	—	9,102	15,721	—	9,102	15,721	24,823	—	2011	5-30		
Eden Landing	Hayward, CA	4,800	3,275	6,174	—	3,275	6,174	9,449	—	2011	5-30		
Hayward Business Park	Hayward, CA	46,400	28,256	54,418	—	28,256	54,418	82,674	—	2011	5-30		
Huntwood Business Park	Hayward, CA	11,600	7,391	11,819	—	7,391	11,819	19,210	—	2011	5-30		
Parkway Commerce	Hayward, CA	—	4,398	10,433	3,835	4,398	14,268	18,666	7,585	1997	5-30		
Dixon Landing Business Park	Milpitas, CA	30,000	26,301	21,121	—	26,301	21,121	47,422	—	2011	5-30		
Monterey/Calle	Monterey, CA	—	288	706	285	288	991	1,279	556	1997	5-30		
Port of Oakland	Oakland, CA	10,800	5,638	11,066	—	5,638	11,066	16,704	—	2011	5-30		
Northpointe Business Center	Sacramento, CA	—	3,031	13,826	5,603	3,031	19,429	22,460	11,480	1999	5-30		
Sacramento/Northgate	Sacramento, CA	—	1,710	4,567	3,031	1,710	7,598	9,308	4,697	1997	5-30		
Charcot Business Park	San Jose, CA	10,300	8,086	11,546	—	8,086	11,546	19,632	—	2011	5-30		
Las Plumas	San Jose, CA	—	4,379	12,889	5,599	4,379	18,488	22,867	11,436	1998	5-30		
Little Orchard Distribution Center	San Jose, CA	5,900	7,725	3,846	—	7,725	3,846	11,571	—	2011	5-30		
Montague Industrial Park	San Jose, CA	14,200	14,476	12,807	—	14,476	12,807	27,283	—	2011	5-30		
Oakland Road	San Jose, CA	—	3,458	8,765	2,629	3,458	11,394	14,852	6,207	1997	5-30		
Rogers Ave	San Jose, CA	—	3,540	4,896	340	3,540	5,236	8,776	1,806	2006	5-30		
Doolittle Business Park	San Leandro, CA	4,500	3,929	6,231	—	3,929	6,231	10,160	—	2011	5-30		
San Ramon/Norris Canyon	San Ramon, CA	—	1,486	3,642	1,178	1,486	4,820	6,306	2,551	1997	5-30		
Commerce Park	Santa Clara, CA	—	17,218	3,417	3,417	17,218	25,331	42,549	12,783	2007	5-30		
Santa Clara Tech Park	Santa Clara, CA	—	7,673	15,645	2,236	7,673	17,881	25,554	8,656	2000	5-30		
Walsh at Lafayette	Santa Clara, CA	19,300	13,437	17,890	—	13,437	17,890	31,327	—	2011	5-30		
Airport Blvd	So. San Francisco, CA	—	899	2,387	630	899	3,017	3,916	1,556	1997	5-30		
So. San Francisco/Produce	So. San Francisco, CA	—	776	1,886	393	776	2,279	3,055	1,162	1997	5-30		
Kifer Industrial Park	Sunnyvale, CA	28,600	13,227	37,874	—	13,227	37,874	51,101	—	2011	5-30		
Buena Park Industrial Center	Buena Park, CA	—	990	7,703	1,911	3,245	9,614	12,859	5,082	1997	5-30		
Carson	Carson, CA	—	990	2,496	1,286	990	3,782	4,772	2,164	1997	5-30		
Cerritos Business Center	Cerritos, CA	—	4,218	10,273	3,196	4,218	13,469	17,687	7,295	1997	5-30		

Description	Location	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at December 31, 2011			Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total				
									Land			
Cerritos/Edwards	Cerritos, CA	—	450	1,217	1,172	450	2,389	2,839	1,235	1997	5-30	
Culver City	Culver City, CA	—	3,252	8,157	5,369	3,252	13,526	16,778	7,671	1997	5-30	
Corporate Pointe	Irvine, CA	—	6,876	18,519	6,177	6,876	24,696	31,572	13,371	2000	5-30	
Laguna Hills Commerce Center	Laguna Hills, CA	—	16,261	39,559	4,479	16,261	44,038	60,299	21,828	1997	5-30	
Plaza Del Lago	Laguna Hills, CA	—	2,037	5,051	3,500	2,037	8,551	10,588	5,227	1997	5-30	
Canada	Lake Forest, CA	—	5,508	13,785	4,579	5,508	18,364	23,872	9,834	1997	5-30	
Monterey Park	Monterey Park, CA	—	3,078	7,862	3,078	3,078	9,184	12,262	4,849	1997	5-30	
Orange County Business Center	Orange County, CA	—	9,405	35,746	15,698	9,405	51,444	60,849	35,471	2003	5-30	
Orangewood	Orange County, CA	—	2,637	12,291	3,121	2,637	15,412	18,049	7,178	2003	5-30	
Kearney Mesa	San Diego, CA	—	2,894	7,089	2,568	2,894	9,657	12,551	5,187	1997	5-30	
Lusk	San Diego, CA	—	5,711	14,049	5,072	5,711	19,121	24,832	10,519	1997	5-30	
Rose Canyon Business Park	San Diego, CA	13,436	15,129	20,054	1,667	15,129	21,721	36,850	8,820	2005	5-30	
Signal Hill	Signal Hill, CA	—	6,693	12,699	2,039	6,693	14,738	21,431	6,502	1997/2006	5-30	
Studio City/Ventura	Studio City, CA	—	621	1,530	346	621	1,876	2,497	1,038	1997	5-30	
Torrance	Torrance, CA	—	2,318	6,069	2,457	2,318	8,526	10,844	4,655	1997	5-30	
Boca Commerce	Boca Raton, FL	9,311	7,795	9,258	936	7,795	10,194	17,989	2,898	2006	5-30	
MICC	Miami, FL	—	89,529	105,370	33,365	89,529	138,735	228,264	64,411	2003/2011	5-30	
Wellington	Wellington, FL	9,337	10,845	18,560	1,278	10,845	19,838	30,683	5,266	2006	5-30	
Ammendale	Beltsville, MD	—	4,278	18,380	8,012	4,278	26,392	30,670	16,766	1998	5-30	
Gaithersburg/Christopher	Gaithersburg, MD	—	475	1,203	514	475	1,717	2,192	984	1997	5-30	
Metro Park	Rockville, MD	—	33,995	94,463	30,134	33,995	124,597	158,592	65,747	2001	5-30	
Parklawn Business Park	Rockville, MD	—	3,387	19,628	1,586	3,387	21,214	24,601	2,235	2010	5-30	
Shady Grove	Rockville, MD	—	5,372	50,727	5,895	5,372	56,822	61,994	5,326	2010	5-30	
Westech Business Park	Silver Spring, MD	—	25,261	74,572	9,175	25,261	83,747	109,008	36,323	2006	5-30	
Cornell Oaks	Beaverton, OR	—	20,616	63,235	13,843	20,616	77,078	97,694	38,868	2001	5-30	
Creekside	Beaverton, OR	—	15,007	47,125	20,547	15,007	67,672	82,679	39,963	1998/2000	5-30	
Milwaukie	Milwaukie, OR	—	1,125	2,857	1,570	1,125	4,427	5,552	2,428	1997	5-30	
Empire Commerce	Dallas, TX	—	304	1,545	805	304	2,350	2,654	1,460	1998	5-30	
Northgate	Dallas, TX	—	1,274	5,505	3,312	1,274	8,817	10,091	4,947	1998	5-30	
Westwood Business Park	Farmers Branch, TX	—	941	6,884	1,586	941	8,470	9,411	3,715	2003	5-30	
Eastgate	Garland, TX	—	480	1,203	516	480	1,719	2,199	977	1997	5-30	
NFTZ (I)	Irving, TX	—	1,517	6,499	1,822	1,517	9,838	11,355	5,117	1998	5-30	
Royal Tech	Irving, TX	—	13,989	54,113	18,495	13,989	72,608	86,597	38,787	1998-2000/2011	5-30	
La Prada	Mesquite, TX	—	495	1,235	616	495	1,851	2,346	1,047	1997	5-30	
The Summit	Piano, TX	—	1,536	6,654	3,711	1,536	10,365	11,901	6,336	1998	5-30	
Richardson/Business Parkway	Richardson, TX	—	799	3,568	2,204	799	5,772	6,571	3,649	1998	5-30	
Ben White	Austin, TX	—	1,550	7,015	1,171	1,550	8,186	9,736	4,256	1998	5-30	
Lamar Business Park	Austin, TX	—	2,528	6,596	3,909	2,528	10,505	13,033	7,570	1997	5-30	
McKalla	Austin, TX	—	1,411	6,384	1,891	1,411	8,275	9,686	4,879	1998	5-30	
Rutland	Austin, TX	—	2,022	9,397	3,065	2,022	12,855	14,877	6,092	1998/1999	5-30	
Waterford	Austin, TX	—	2,108	9,649	3,065	2,108	12,714	14,822	7,154	1999	5-30	

Description	Location	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at December 31, 2011			Year(s) Acquired	Depreciable Lives (Years)
		Land	Buildings and Improvements	Buildings and Improvements	Buildings and Improvements	Land	Improvements	Total		
Braker Business Park	Austin, TX	1,874	13,990	439	14,429	16,303	2,022	2010	5-30	
McNeil	Austin, TX	1,642	10,946	1,456	12,402	14,044	3,341	1999/2010	5-30	
Mopac Business Park	Austin, TX	719	3,579	266	3,845	4,564	482	2010	5-30	
Southpark Business Park	Austin, TX	1,266	9,882	475	10,357	11,623	1,409	2010	5-30	
Quail Valley	Missouri City, TX	360	918	1,040	1,958	2,318	1,099	1997	5-30	
Bren Mar	Alexandria, VA	2,197	5,380	3,342	8,722	10,919	5,029	1997	5-30	
Eisenhower	Alexandria, VA	1,440	3,635	2,306	5,941	7,381	3,675	1997	5-30	
Beaumont	Chantilly, VA	4,736	11,051	1,722	12,773	17,509	5,198	2006	5-30	
Dulles South/Sullyfield	Chantilly, VA	1,373	6,810	2,337	9,147	10,520	4,885	1999	5-30	
Lafayette	Chantilly, VA	1,680	13,398	4,100	17,498	19,178	10,065	1999/2000	5-30	
Park East	Chantilly, VA	3,851	18,029	8,319	26,348	30,199	12,609	1999	5-30	
Fair Oaks Business Park	Fairfax, VA	13,598	36,232	4,849	41,081	54,679	18,694	2004/2007	5-30	
Prosperity Business Campus	Fairfax, VA	23,147	67,575	21,183	88,758	111,905	44,885	2001	5-30	
Monroe	Herndon, VA	6,737	18,911	9,211	28,122	34,859	16,176	1997/1999	5-30	
Gunston	Lorton, VA	4,146	17,872	3,655	21,527	25,673	11,904	1998	5-30	
Westpark Business Campus	McLean, VA	53,882	111,253	8,809	120,062	173,944	7,048	2010/2011	5-30	
Alban Road	Springfield, VA	1,935	4,736	4,237	8,973	10,908	5,672	1997	5-30	
I-95	Springfield, VA	3,535	15,672	9,816	25,488	29,023	16,829	2000	5-30	
Northpointe	Sterling, VA	2,767	8,778	3,839	12,617	15,384	8,088	1997/1998	5-30	
Shaw Road	Sterling, VA	2,969	10,008	3,787	13,795	16,764	8,882	1998	5-30	
Tyson's Corporate Center	Vienna, VA	9,885	25,302	3,111	28,413	38,298	2,600	2010	5-30	
Woodbridge	Woodbridge, VA	1,350	3,398	1,622	5,020	6,370	2,866	1997	5-30	
Overlake	Redmond, WA	27,761	49,353	4,833	54,186	81,947	24,662	2007	5-30	
Renton	Renton, WA	330	889	496	1,385	1,715	812	1997	5-30	
		\$282,084	\$1,771,975	\$385,754	\$2,157,729	\$2,930,662	\$846,799			

(1) The Company owns two properties that are subject to ground leases in Las Colinas, Texas, expiring in 2019 and 2020, each with one 10 year extension option.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 24, 2012

PS BUSINESS PARKS, INC.

By: /s/ Joseph D. Russell, Jr.

Joseph D. Russell, Jr.

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ronald L. Havner, Jr.</u> Ronald L. Havner, Jr.	Chairman of the Board	February 24, 2012
<u>/s/ Joseph D. Russell, Jr.</u> Joseph D. Russell, Jr.	President, Director and Chief Executive Officer (principal executive officer)	February 24, 2012
<u>/s/ Edward A. Stokx</u> Edward A. Stokx	Chief Financial Officer (principal financial officer and principal accounting officer)	February 24, 2012
<u>/s/ R. Wesley Burns</u> R. Wesley Burns	Director	February 24, 2012
<u>/s/ Jennifer Holden Dunbar</u> Jennifer Holden Dunbar	Director	February 24, 2012
<u>/s/ Arthur M. Friedman</u> Arthur M. Friedman	Director	February 24, 2012
<u>/s/ James H. Kropp</u> James H. Kropp	Director	February 24, 2012
<u>/s/ Sara Grootwassink Lewis</u> Sara Grootwassink Lewis	Director	February 24, 2012
<u>/s/ Michael V. McGee</u> Michael V. McGee	Director	February 24, 2012

**PS BUSINESS PARKS, INC.**

**EXHIBIT INDEX**  
**(Items 15(a)(3) and 15(b))**

- 3.1 Restated Articles of Incorporation. Filed with Registrant's Registration Statement on Form S-3 (No. 333-78627) and incorporated herein by reference.
- 3.2 Restated Bylaws, as amended. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and incorporated herein by reference.
- 3.3 Certificate of Determination of Preferences of 8.75% Series C Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.4 Certificate of Determination of Preferences of 8.875% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.5 Amendment to Certificate of Determination of Preferences of 8.875% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.6 Certificate of Determination of Preferences of 8.875% Series Y Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.7 Certificate of Determination of Preferences of 9.50% Series D Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated May 7, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.8 Amendment to Certificate of Determination of Preferences of 9.50% Series D Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.9 Certificate of Determination of Preferences of 9¼% Series E Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.10 Certificate of Determination of Preferences of 8.75% Series F Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated January 18, 2002 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.11 Certificate of Determination of Preferences of 7.95% Series G Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 3.12 Certificate of Determination of Preferences of 7.00% Series H Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. filed with Registrant's Current Report on Form 8-K dated January 16, 2004 and incorporated herein by reference.
- 3.13 Certificate of Determination of Preferences of 6.875% Series I Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated March 31, 2004 and incorporated herein by reference.
- 3.14 Certificate of Determination of Preferences of 7.50% Series J Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.
- 3.15 Certificate of Determination of Preferences of 7.950% Series K Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated June 24, 2004 and incorporated herein by reference.

- 3.16 Certificate of Determination of Preferences of 7.60% Series L Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated August 23, 2004 and incorporated herein by reference.
- 3.17 Certificate of Correction of Certificate of Determination of Preferences for the 7.00% Cumulative Preferred Stock, Series H of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated October 18, 2004 and incorporated herein by reference.
- 3.18 Amendment to Certificate of Determination of Preferences for the 7.00% Cumulative Preferred Stock, Series H of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated October 18, 2004 and incorporated herein by reference.
- 3.19 Certificate of Determination of Preferences of 7 1/8% Series N Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated December 16, 2005 and incorporated herein by reference.
- 3.20 Certificate of Determination of Preferences of 6.70% Series P Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated January 9, 2007 and incorporated herein by reference.
- 3.21 Certificate of Determination of Preferences of 6.55% Series Q Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated March 16, 2007 and incorporated herein by reference.
- 3.22 Certificate of Determination of Preferences of 6.875% Cumulative Preferred Stock, Series R of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated October 7, 2010 and incorporated herein by reference.
- 3.23 Certificate of Determination of Preferences of 6.45% Cumulative Preferred Stock, Series S of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated January 11, 2012 and incorporated herein by reference.
- 4.1 Deposit Agreement Relating to 7.00% Cumulative Preferred Stock, Series H of PS Business Parks, Inc., dated as of January 15, 2004. Filed with Registrant's Current Report on Form 8-K dated January 15, 2004 and incorporated herein by reference.
- 4.2 Deposit Agreement Relating to 6.875% Cumulative Preferred Stock, Series I of PS Business Parks, Inc., dated as of March 31, 2004. Filed with Registrant's Current Report on Form 8-K dated March 31, 2004 and incorporated herein by reference.
- 4.3 Deposit Agreement Relating to 6.70% Cumulative Preferred Stock, Series P of PS Business Parks, Inc., dated as of January 9, 2007. Filed with Registrant's Current Report on Form 8-K dated January 9, 2007 and incorporated herein by reference.
- 4.4 Deposit Agreement Relating to 6.875% Cumulative Preferred Stock, Series R of PS Business Parks, Inc., dated as of October 7, 2010. Filed with Registrant's Current Report on Form 8-K dated October 7, 2010 and incorporated herein by reference.
- 4.5 Deposit Agreement Relating to 6.45% Cumulative Preferred Stock, Series S of PS Business Parks, Inc., dated as of January 10, 2012. Filed with Registrant's Current Report on Form 8-K dated January 11, 2012 and incorporated herein by reference.
- 10.1 Amended Management Agreement between Storage Equities, Inc. and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with PS's Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-08389) and incorporated herein by reference.
- 10.2 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.3\* Offer Letter/ Employment Agreement between Registrant and Joseph D. Russell, Jr., dated as of September 6, 2002. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and incorporated herein by reference.
- 10.4 Form of Indemnity Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.5\* Form of Indemnification Agreement for Executive Officers. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.

- 10.6 Cost Sharing and Administrative Services Agreement dated as of November 16, 1995 by and among PSCC, Inc. and the owners listed therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.7 Amendment to Cost Sharing and Administrative Services Agreement dated as of January 2, 1997 by and among PSCC, Inc. and the owners listed therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.8 Accounts Payable and Payroll Disbursement Services Agreement dated as of January 2, 1997 by and between PSCC, Inc. and AOPP LP. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.9 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.875% Series B Cumulative Redeemable Preferred Units, dated as of April 23, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.10 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9.25% Series A Cumulative Redeemable Preferred Units, dated as of April 30, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.11 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.75% Series C Cumulative Redeemable Preferred Units, dated as of September 3, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.12 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.875% Series X Cumulative Redeemable Preferred Units, dated as of September 7, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.13 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to Additional 8.875% Series X Cumulative Redeemable Preferred Units, dated as of September 23, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.14 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.875% Series Y Cumulative Redeemable Preferred Units, dated as of July 12, 2000. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.15 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9.50% Series D Cumulative Redeemable Preferred Units, dated as of May 10, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.16 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9.50% Series D Cumulative Redeemable Preferred Units, dated as of June 18, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.17 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9 1/4% Series E Cumulative Redeemable Preferred Units, dated as of September 21, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.18 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8.75% Series F Cumulative Redeemable Preferred Units, dated as of January 18, 2002. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2001 (SEC File No. 001-10709) and incorporated herein by reference.

- 10.19 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.95% Series G Cumulative Redeemable Preferred Units, dated as of October 30, 2002. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 10.20 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.00% Series H Cumulative Redeemable Preferred Units, dated as of January 16, 2004. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 10.21 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 6.875% Series I Cumulative Redeemable Preferred Units, dated as of April 21, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 10.22 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.50% Series J Cumulative Redeemable Preferred Units, dated as of May 27, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.
- 10.23 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.50% Series J Cumulative Redeemable Preferred Units, dated as of June 17, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.
- 10.24 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.95% Series K Cumulative Redeemable Preferred Units, dated as of June 30, 2004, filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.
- 10.25 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.60% Series L Cumulative Redeemable Preferred Units, dated as of August 31, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 10.26 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7.00% Series H Cumulative Redeemable Preferred Units, dated as of October 25, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
- 10.27 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 7 $\frac{1}{8}$ % Series N Cumulative Redeemable Preferred Units, dated as of December 12, 2005. Filed with Registrant's Current Report on Form 8-K dated December 16, 2005 and incorporated herein by reference.
- 10.28 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 6.70% Series P Cumulative Redeemable Preferred Units, dated as of January 9, 2007. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference.
- 10.29 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 6.55% Series Q Cumulative Redeemable Preferred Units, dated as of March 12, 2007. Filed with Registrant's Current Report on Form 8-K dated March 16, 2007 and incorporated herein by reference.
- 10.30 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 6.875% Series R Cumulative Redeemable Preferred Units, dated as of October 15, 2010. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.31 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 6.45% Series S Cumulative Redeemable Preferred Units, dated as of January 10, 2012. Filed herewith.

- 10.32 Registration Rights Agreement by and between PS Business Parks, Inc. and GSEP 2005 Realty Corp., dated as of December 12, 2005, relating to 7.125% Series N Cumulative Redeemable Preferred Units. Filed with Registrant's Current Report on Form 8-K dated December 16, 2005 and incorporated herein by reference.
- 10.33 Amended and Restated Revolving Credit Agreement dated as of October 29, 2002 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.34 Modification Agreement, dated as of December 29, 2003. Filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference. This exhibit modifies the Amended and Restated Revolving Credit Agreement dated as of October 29, 2002 and filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.35 Modification Agreement, dated as of January 23, 2004. Filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference. This exhibit modifies the Modification Agreement dated as of December 29, 2003 and filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 10.36 Third Modification Agreement, dated as of August 5, 2005. Filed with the Registrant's Current Report on Form 8-K dated August 5, 2005 and incorporated herein by reference. This exhibit modifies the Modification Agreement dated as of January 23, 2004 and filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 10.37 Fourth Modification Agreement dated as of July 30, 2008 to Amended and Restated Revolving Credit Agreement dated October 29, 2002. Filed with Registrant's Current Report of Form 8-K dated August 5, 2008 and incorporated herein by reference.
- 10.38 Fifth Modification Agreement dated as of July 28, 2010 to Amended and Restated Revolving Credit Agreement dated October 29, 2002. Filed with Registrant's Current Report on Form 8-K dated August 2, 2010 and incorporated herein by reference.
- 10.39 Promissory Note dated February 9, 2011. Filed with the Registrant's Current Report on Form 8-K dated February 14, 2011 and incorporated herein by reference.
- 10.40 Sixth Modification Agreement dated as of August 3, 2011 to Amended and Restated Revolving Credit Agreement dated October 29, 2002. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 and incorporated herein by reference.
- 10.41 Loan Agreement, dated November 17, 2006, between Northern California Industrial Portfolio, Inc., a Maryland corporation, and LaSalle Bank National Association, a national banking association. Filed with the Registrant's Current Report on Form 8-K dated December 20, 2011 and incorporated herein by reference.
- 10.42 Credit Agreement dated as of December 20, 2011, by and among PS Business Parks, L.P., a California limited partnership, as borrower, and Wells Fargo Bank, National Association, as Administrative Agent for the Lenders. Filed with the Registrant's Current Report on Form 8-K dated December 20, 2011 and incorporated herein by reference.
- 10.43 Seventh Modification Agreement dated as of December 20, 2011 to Amended and Restated Revolving Credit Agreement dated October 29, 2002. Filed with the Registrant's Current Report on Form 8-K dated December 20, 2011 and incorporated herein by reference.
- 10.44 First Modification Agreement dated December 29, 2011 to Credit Agreement dated December 20, 2011 by and among PS Business Parks, L.P., a California limited partnership, as borrower, and Wells Fargo Bank, National Association, as Administrative Agent for the Lenders. Filed with the Registrant's Current Report on Form 8-K dated January 5, 2012 and incorporated herein by reference.
- 10.45\* Registrant's 1997 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement on Form S-8 (No. 333-48313) and incorporated herein by reference.

10.46*	Registrant's 2003 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement on Form S-8 (No. 333-104604) and incorporated herein by reference.
10.47*	Amended and Restated Retirement Plan for Non-Employee Directors. Filed herewith.
10.48*	Form of PS Business Parks, Inc. Restricted Stock Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
10.49*	Form of PS Business Parks, Inc. 2003 Stock Option and Incentive Plan Non-Qualified Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
10.50*	Form of PS Business Parks, Inc. 2003 Stock Option and Incentive Plan Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference.
10.51*	Amendment to Form of Director Stock Option Agreement. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (SEC File No. 001-10709) and incorporated herein by reference.
10.52*	Revised Form of Director Stock Option Agreement. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (SEC File No. 001-10709) and incorporated herein by reference.
12	Statement re: Computation of Ratio of Earnings to Fixed Charges. Filed herewith.
21	List of Subsidiaries. Filed herewith.
23	Consent of Independent Registered Public Accounting Firm. Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
101 .INS	XBRL Instance Document. Filed herewith.
101 .SCH	XBRL Taxonomy Extension Schema. Filed herewith.
101 .CAL	XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
101 .DEF	XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
101 .LAB	XBRL Taxonomy Extension Label Linkbase. Filed herewith.
101 .PRE	XBRL Taxonomy Extension Presentation Link. Filed herewith.

\* Management contract or compensatory plan or arrangement

PS BUSINESS PARKS, L.P.  
AMENDMENT TO AGREEMENT OF LIMITED  
PARTNERSHIP RELATING TO  
6.45% SERIES S CUMULATIVE REDEEMABLE  
PREFERRED UNITS

This Amendment to the Agreement of Limited Partnership of PS Business Parks, L.P., a California limited partnership (the “**Partnership**”), dated as of January 18, 2012 (this “**Amendment**”), amends the Agreement of Limited Partnership of the Partnership, dated as of March 17, 1998, as amended, by and among PS Business Parks, Inc. (the “**General Partner**”) and each of the limited partners described on Exhibit A to that partnership agreement (the “**Partnership Agreement**”). Section references are (unless otherwise specified) references to sections in this Amendment.

WHEREAS, the General Partner agreed to issue up to 9,200,000 Depositary Shares each representing 1/1000th of a share of the General Partner’s preferred stock designated as the “6.45% Cumulative Preferred Stock, Series S” (the “**Depositary Shares**”) for a price of \$25.00 per Depositary Share;

WHEREAS, Section 4.1(b)(2) of the Partnership Agreement requires the General Partner to contribute to the Partnership the funds raised through the issuance of additional shares of the General Partner in return for additional Partnership Units, and provides that the General Partner’s capital contribution shall be deemed to equal the amount of the gross proceeds of that share issuance (i.e., the net proceeds actually contributed, plus any underwriter’s discount or other expenses incurred, with any such discount or expense deemed to have been incurred on behalf of the Partnership);

WHEREAS, Section 4.2(a) of the Partnership Agreement provides generally for the creation and issuance of Partnership Units with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to other Partnership Interests, all as shall be determined by the General Partner, without the consent of the Limited Partners, and Section 4.2(b) of the Partnership Agreement specifically contemplates the issuance of Units to the General Partner having designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of shares issued by the General Partner, such as the Depositary Shares;

WHEREAS, the General Partner desires to cause the Partnership to issue additional Units of a new class and series, with the designations, preferences and relative, participating, optional or other special rights, powers and duties set forth herein; and

WHEREAS, the General Partner desires by this Amendment to so amend the Partnership Agreement as of the date first set forth above to provide for the designation and issuance of such new class and series of Units.



NOW, THEREFORE, the Partnership Agreement is hereby amended by establishing and fixing the rights, limitations and preferences of a new class and series of Units as follows:

**Section 1. Definitions.** Capitalized terms not otherwise defined herein shall have their respective meanings set forth in the Partnership Agreement. Capitalized terms that are used in this Amendment shall have the meanings set forth below:

(a) **“Liquidation Preference”** means, with respect to the Series S Preferred Units (as defined below), \$25.00 per Series S Preferred Unit, plus the amount of any accumulated and unpaid Priority Return (as defined below) with respect to such Series S Preferred Unit, whether or not declared, minus any distributions in excess of the Priority Return that has accrued with respect to such Series S Preferred Units, to the date of payment.

(b) **“Parity Preferred Units”** means any class or series of Partnership Interests (as such term is defined in the Partnership Agreement) of the Partnership now or hereafter authorized, issued or outstanding and expressly designated by the Partnership to rank on a parity with the Series S Preferred Units with respect to distributions and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Partnership, including the 7.000% Series H Cumulative Redeemable Preferred Units (the **“Series H Preferred Units”**), the 6.875% Series I Cumulative Redeemable Preferred Units (the **“Series I Preferred Units”**), the 7.20% Series M Cumulative Redeemable Preferred Units (the **“Series M Preferred Units”**), the 7.375% Series O Cumulative Redeemable Preferred Units (the **“Series O Preferred Units”**), the 6.700% Series P Cumulative Redeemable Preferred Units (the **“Series P Preferred Units”**), the 6.550% Series Q Cumulative Redeemable Preferred Units (the **“Series Q Preferred Units”**), and the 6.875% Series R Cumulative Redeemable Preferred Units (the **“Series R Preferred Units”**). Notwithstanding the differing allocation rights set forth in Section 4 below that apply to the Series H, I, M, O, P, R and S Preferred Units (as compared to the Series Q Preferred Units), for purposes of this Amendment, those Series H, I, M, O, P, R and S Preferred Units and any future series of preferred units that rank in parity with those series also shall be considered Parity Preferred Units to the Series Q Preferred Units.

(c) **“Priority Return”** means an amount equal to 6.45% per annum, of the Liquidation Preference per Series S Preferred Unit, commencing on the date of issuance of such Series S Preferred Unit, determined on the basis of a 360-day year (and twelve 30-day months), cumulative to the extent not distributed on any Series S Preferred Unit Distribution Payment Date (as defined below).

**Section 2. Creation of Series S Preferred Units.** (a) **Designation and Number.** Pursuant to Section 4.2(a) of the Partnership Agreement, a series of Partnership Units (as such term is defined in the Partnership Agreement) in the Partnership designated as the “6.45% Series S Cumulative Redeemable Preferred Units” (the **“Series S Preferred Units”**) is hereby established effective as of January 18, 2012. The number of Series S Preferred Units shall be 9,200,000. The Holders of Series S Preferred Units shall not have any Percentage Interest (as such term is defined in the Partnership Agreement) in the Partnership.

(b) **Capital Contribution.** In return for the issuance to the General Partner of the Series S Preferred Units set forth on Exhibit C to this Amendment, the General Partner has contributed to the Partnership the funds raised through the General Partner's issuance of the Depositary Shares (the General Partner's capital contribution shall be deemed to equal the amount of the gross proceeds of that share issuance, *i.e.*, the net proceeds actually contributed, plus any underwriter's discount or other expenses incurred, with any such discount or expense deemed to have been incurred by the General Partner on behalf of the Partnership).

(c) **Construction.** The Series S Preferred Units have been created and are being issued in conjunction with the General Partner's issuance of the Depositary Shares relating to the General Partner's 6.45% Cumulative Preferred Stock, Series S, and as such, the Series S Preferred Units are intended to have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the Depositary Shares, and the terms of this Amendment shall be interpreted in a fashion consistent with this intent.

**Section 3. Distributions.** (a) **Payment of Distributions.** Subject to the rights of holders of Parity Preferred Units as to the payment of distributions, pursuant to Section 5.1 of the Partnership Agreement, holders of Series S Preferred Units shall be entitled to receive, when, as and if declared by the Partnership acting through the General Partner, the Priority Return. Such distributions shall be cumulative, shall accrue from the original date of issuance of the Series S Preferred Units and, notwithstanding Section 5.1 of the Partnership Agreement, will be payable (i) quarterly in arrears on March 31, June 30, September 30 and December 31 of each year commencing on March 31, 2012 and (ii) in the event of a redemption of Series S Preferred Units (each a "**Series S Preferred Unit Distribution Payment Date**"). If any date on which distributions are to be made on the Series S Preferred Units is not a Business Day (as defined below), then payment of the distribution to be made on such date will be made on the Business Day immediately preceding such date with the same force and effect as if made on such date. Distributions on the Series S Preferred Units will be made to the holders of record of the Series S Preferred Units on the relevant record dates to be fixed by the Partnership acting through the General Partner, which record dates shall in no event exceed fifteen (15) Business Days prior to the relevant Series S Preferred Unit Distribution Payment Date. Business Day shall be any day other than a Saturday, Sunday or day on which banking institutions in the State of New York or the State of California are authorized or obligated by law to close, or a day which is or is declared a national or a New York or California state holiday.

(b) **Prohibition on Distribution.** No distributions on Series S Preferred Units shall be authorized by the General Partner or paid or set apart for payment by the Partnership at any such time as the terms and provisions of any agreement of the Partnership or the General Partner, including any agreement relating to their indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or to the extent that such authorization or payment shall be restricted or prohibited by law.

(c) **Distributions Cumulative.** Distributions on the Series S Preferred Units will accrue whether or not the terms and provisions of any agreement of the Partnership, including any agreement relating to its indebtedness, at any time prohibit the current payment of distributions, whether or not the Partnership has earnings, whether or not there are funds legally available for the payment of such distributions and whether or not such distributions are

authorized. Accrued but unpaid distributions on the Series S Preferred Units will accumulate as of the Series S Preferred Unit Distribution Payment Date on which they first become payable. Distributions on account of arrears for any past distribution periods may be declared and paid at any time, without reference to a regular Series S Preferred Unit Distribution Payment Date, to holders of record of the Series S Preferred Units on the record date fixed by the Partnership acting through the General Partner which date shall not exceed fifteen (15) Business Days prior to the payment date. Accumulated and unpaid distributions will not bear interest.

(d) **Priority as to Distributions.** Subject to the provisions of Article 13 of the Partnership Agreement:

(i) So long as any Series S Preferred Units are outstanding, no distribution of cash or other property shall be authorized, declared, paid or set apart for payment on or with respect to any class or series of Partnership Interests ranking junior as to the payment of distributions or rights upon a voluntary or involuntary liquidation, dissolution or winding-up of the Partnership to the Series S Preferred Units (collectively, “**Junior Units**”), nor shall any cash or other property be set aside for or applied to the purchase, redemption or other acquisition for consideration of any Series S Preferred Units, any Parity Preferred Units or any Junior Units, unless, in each case, all distributions accumulated on all Series S Preferred Units and all classes and series of outstanding Parity Preferred Units have been paid in full. The foregoing sentence shall not prohibit (x) distributions payable solely in Junior Units, or (y) the conversion of Junior Units or Parity Preferred Units into Partnership Interests ranking junior to the Series S Preferred Units.

(ii) So long as distributions have not been paid in full (or a sum sufficient for such full payment is not irrevocably deposited in trust for payment) upon the Series S Preferred Units, all distributions authorized and declared on the Series S Preferred Units and all classes or series of outstanding Parity Preferred Units shall be authorized and declared so that the amount of distributions authorized and declared per Series S Preferred Unit and such other classes or series of Parity Preferred Units shall in all cases bear to each other the same ratio that accrued distributions per Series S Preferred Unit and such other classes or series of Parity Preferred Units (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such class or series of Parity Preferred Units do not have cumulative distribution rights) bear to each other.

(e) **No Further Rights.** Holders of Series S Preferred Units shall not be entitled to any distributions, whether payable in cash, other property or otherwise, in excess of the full cumulative distributions described herein.

**Section 4. Allocations.** Section 6.1(a)(ii) of the Partnership Agreement is amended to read, in its entirety, as follows:

“(ii) (A) Notwithstanding anything to the contrary contained in this Agreement, in any taxable year: (1) the holders of Series H, I, M, O, P, R and S Preferred Units shall first be allocated an amount of gross income equal to the Priority Return distributed to such holders in such taxable year, and (2) subject to any prior allocation of Profit pursuant to the loss chargeback set forth in Section

6.1(a)(ii)(B) below, the holders of Series Q Preferred Units shall then be allocated an amount of Profit equal to the Priority Return distributed to such holders either in such taxable year or in prior taxable years to the extent that such distributions have not previously been matched with an allocation of Profit pursuant to this Section 6.1(a)(ii)(A)(2).

(B) After the Capital Account balances of all Partners other than holders of any series of Preferred Units have been reduced to zero, Losses of the Partnership that otherwise would be allocated so as to cause deficit Capital Account balances for those other Partners shall be allocated to the holders of the Series H, I, M, O, P, Q, R and S Preferred Units in proportion to the positive balances of their Capital Accounts until those Capital Account balances have been reduced to zero. If Losses have been allocated to the holders of the Series H, I, M, O, P, Q, R and S Preferred Units pursuant to the preceding sentence, the first subsequent Profits shall be allocated to those preferred partners so as to recoup, in reverse order, the effects of the loss allocations.

(C) Upon liquidation of the Partnership or the interest of the holders of Series H, I, M, O, P, Q, R and S Preferred Units in the Partnership: (1) items of gross income or deduction shall first be allocated to the holders of Series H, I, M, O, P, R and S Preferred Units in a manner such that, immediately prior to such liquidation, the Capital Account balances of such holders shall equal the amount of their Liquidation Preferences, and (2) an amount of Profit or Loss shall then be allocated to the holders of Series Q Preferred Units in a manner such that, immediately prior to such liquidation, the Capital Account balances of such holders shall equal the amount of their Liquidation Preferences.”

**Section 5. Optional Redemption.** The Series S Preferred Units shall be redeemed at the same time, to the same extent, and applying, except as set forth below, similar procedures, as any redemption by the General Partner of the Depositary Shares. The redemption price, payable in cash, shall equal the Liquidation Preference (the “**Series S Redemption Price**”). The Partnership will deliver into escrow with an escrow agent acceptable to the Partnership and the holders of the Series S Preferred Units being redeemed (the “**Escrow Agent**”) the Series S Redemption Price and an executed Redemption Agreement, in substantially the form attached as Exhibit A (the “**Redemption Agreement**”), and an Amendment to the Agreement of Limited Partnership evidencing the Redemption, in substantially the form attached as Exhibit B. The holders of the Series S Preferred Units to be redeemed will also deliver into escrow with the Escrow Agent an executed Redemption Agreement and an executed Amendment to the Agreement of Limited Partnership evidencing the redemption. Upon delivery of all of the above-described items by both parties, on the redemption date the Escrow Agent shall release the Series S Redemption Price to the holders of the Series S Preferred Units and the fully-executed Redemption Agreement and Amendment to Agreement of Limited Partnership to both parties. On and after the date of redemption, distributions will cease to accumulate on the Series S Preferred Units called for redemption, unless the Partnership defaults in the payment of the Series S Redemption Price. The Redemption Right (as such term is defined in the Partnership Agreement) given to Limited Partners (as such term is defined in the Partnership Agreement) in Section 8.6 of the Partnership Agreement shall not be available to the holders of the Series S Preferred Units and all references to Limited Partners in said Section 8.6 (and related provisions of the Partnership Agreement) shall not include holders of the Series S Preferred Units.

**Section 6. Voting Rights.** Holders of the Series S Preferred Units will not have any voting rights or right to consent to any matter requiring the consent or approval of the Limited Partners, except as set forth in Section 14.1 of the Partnership Agreement and in this Section 6. Solely for purposes of Section 14.1 of the Partnership Agreement, each Series S Preferred Unit shall be treated as one Partnership Unit.

**Section 7. Transfer Restrictions.** The holders of Series S Preferred Units shall be subject to all of the provisions of Section 11 of the Partnership Agreement.

**Section 8. No Conversion Rights.** The holders of the Series S Preferred Units shall not have any rights to convert such units into shares of any other class or series of stock or into any other securities of, or interest in, the Partnership.

**Section 9. No Sinking Fund.** No sinking fund shall be established for the retirement or redemption of Series S Preferred Units.

**Section 10. Exhibit A to Partnership Agreement.** In order to duly reflect the issuance of the Series S Preferred Units provided for herein, the Partnership Agreement is hereby further amended pursuant to Section 12.3 of the Partnership Agreement by replacing the current form of Exhibit A to the Partnership Agreement with the form of Exhibit A that is attached to this Amendment as Exhibit C.

**Section 11. Inconsistent Provisions.** Nothing to the contrary contained in the Partnership Agreement shall limit any of the rights or obligations set forth in this Amendment.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, this Amendment has been executed as of the date first above written.

PS BUSINESS PARKS, INC.

By: /s/ Joseph D. Russell, Jr.

Name: Joseph D. Russell, Jr.

Title: President and Chief Executive Officer

FORM OF  
REDEMPTION AGREEMENT

THIS REDEMPTION AGREEMENT (the "Agreement") is entered into effective as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, by and between \_\_\_\_\_ (the "Retiring Partner"), and PS Business Parks, L.P., a California limited partnership (the "Partnership").

**RECITALS:**

WHEREAS, the Agreement of Limited Partnership of the Partnership, dated as of March 17, 1998, as amended, was amended by an Amendment to Agreement of Limited Partnership Relating to 6.45% Series S Cumulative Redeemable Preferred Units (the "Amendment"), as further amended from time to time;

WHEREAS, the Retiring Partner owns \_\_\_\_\_ of the 6.45% Series S Cumulative Redeemable Preferred Units in the Partnership (the "Series S Preferred Units"); and

WHEREAS, the Partnership desires to redeem the Series S Preferred Units of the Retiring Partner, and the Retiring Partner desires to liquidate its Series S Preferred Units (the "Redemption") pursuant to the Amendment and based on the representations and under the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the mutual covenants, representations and agreements herein contained, the parties hereto, intending to be legally bound, do covenant and agree as follows:

**1. Liquidation of Retiring Partner.** In satisfaction of the terms and conditions set forth herein and in the Amendment, the Retiring Partner's Series S Preferred Units are hereby completely liquidated and the Retiring Partner immediately and automatically ceases to be a limited partner in the Partnership in exchange for the payment of the Series S Redemption Price (as defined in the Amendment and in accordance with the provisions set forth in the Amendment) and for other good and valuable consideration.

**2. Representations of Retiring Partner.** The Retiring Partner represents and warrants to the Partnership that:

(a) The Retiring Partner is duly organized and validly existing under the laws of the State of \_\_\_\_\_ and has been duly authorized by all necessary and appropriate [limited liability company] [corporate] [partnership] action to enter into this Agreement and to consummate the transactions contemplated herein. This Agreement is a valid and binding obligation of the Retiring Partner, enforceable against the Retiring Partner in accordance with its terms, except insofar as such enforceability may be affected by bankruptcy, insolvency or similar laws affecting creditor's rights generally and the availability of any particular equitable remedy.

(b) The Retiring Partner has not sold, assigned or otherwise disposed of all or any portion of the Series S Preferred Units and the Series S Preferred Units are free of any liens, security interests, encumbrances or other restrictions, whether existing of record or otherwise.

(c) The execution of this Agreement by the Retiring Partner and the performance of its obligations hereunder will not violate any contract, mortgage, indenture, or other similar restriction to which the Retiring Partner is a party or by which its assets are bound.

(d) Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated herein nor fulfillment of or compliance with the terms and conditions hereof (a) conflict with or will result in a breach of any of the terms, conditions or provisions of (i) the organizational and governing documents of the Retiring Partner or (ii) any agreement, order, judgment, decree, arbitration award, statute, regulation or instrument to which the Retiring Partner is a party or by which it or its assets are bound, or (b) constitutes or will constitute a breach, violation or default under any of the foregoing. No consent or approval, authorization, order, regulation or qualification of any governmental entity or any other person is required for the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the Retiring Partner.

**3. Representations and Warranties of the Partnership.** The Partnership represents and warrants to the Retiring Partner as follows:

(a) The Partnership is duly organized and validly existing under the laws of the State of California and has been duly authorized by all necessary and appropriate partnership action to enter into this Agreement and to consummate the transactions contemplated herein. This Agreement is a valid and binding obligation of the Partnership enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally.

(b) The execution of this Agreement by the Partnership and the performance of its obligations hereunder will not violate any contract, mortgage, indenture, or other similar restriction to which the Partnership is a party or by which the Partnership is bound.

(c) Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated herein nor fulfillment of or compliance with the terms and conditions hereof (a) conflict with or will result in a breach of any of the terms, conditions or provisions of (i) the organizational and governing documents of the Partnership or (ii) any agreement, order, judgment, decree, arbitration award, statute, regulation or instrument to which the Partnership is a party or by which it or its assets are bound, or (b) constitutes or will constitute a breach, violation or default under any of the foregoing. No consent or approval, authorization, order, regulation or qualification of any governmental entity or any other person is required for the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the Partnership.

(d) Consummation of the Redemption by the Partnership will not render the Partnership insolvent under California partnership law.



**4. Indemnification.**

(a) The Retiring Partner covenants and agrees to indemnify the Partnership and hold it harmless against and with respect to any and all damage, loss, liability, deficiency, cost and expense, including reasonable attorneys' fees, (i) resulting from any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of the Retiring Partner under this Agreement, and (ii) from any and all actions, suits, proceedings, demands, assessments, judgments, costs and legal and other expenses incident to any of the foregoing.

(b) The Partnership covenants and agrees to indemnify the Retiring Partner and hold it harmless against and with respect to any and all damage, loss, liability, deficiency, cost and expense, including reasonable attorneys' fees, (i) resulting from any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of such Partnership under this Agreement and (ii) from any and all actions, suits, proceedings, demands, assessments, judgments, costs and legal and other expenses incident to any of the foregoing.

**5. Survival of Representations and Warranties.** All representations, warranties, covenants and agreements of any of the parties hereto made in this Agreement shall survive the execution and delivery hereof, the closing hereunder, and the execution and delivery of all instruments and documents executed in connection therewith.

**6. Integration, Interpretation and Miscellaneous.** This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter herein and it shall not be changed or terminated orally. This Agreement shall be construed in accordance with the laws of the State of California. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, and successors, or successors and assigns, as the case may be. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**RETIRING PARTNER:**

\_\_\_\_\_  
By: \_\_\_\_\_  
Name:  
Title:

**PARTNERSHIP:**

PS Business Parks, L.P.

By: PS Business Parks, Inc., its  
General Partner

By: \_\_\_\_\_  
Name:  
Title:

FORM OF  
AMENDMENT TO  
AGREEMENT OF LIMITED PARTNERSHIP  
OF  
PS BUSINESS PARKS, L.P.

This Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. (the “**Partnership**”), dated as of \_\_\_\_\_ (this “**Amendment**”) is entered into by the General Partner of the Partnership, PS Business Parks, Inc., and \_\_\_\_\_, as a withdrawing Limited Partner of the Partnership (the “**Withdrawing Partner**”).

**RECITALS:**

WHEREAS, capitalized terms used herein, unless otherwise defined, have the meanings assigned to such terms in the Agreement of Limited Partnership of the Partnership entered into as of March 17, 1998, as amended (the “**Partnership Agreement**”).

WHEREAS, pursuant to the redemption by the Partnership of the 6.45% Series S Cumulative Redeemable Preferred Units pursuant to the terms and conditions set forth in that certain Redemption Agreement by and between the Partnership and the Withdrawing Partner, dated as of \_\_\_\_\_, 20\_\_\_\_, \_\_\_\_\_ 6.45% Series S Cumulative Redeemable Preferred Units of the Withdrawing Partner have been redeemed by the Partnership and the General Partner desires to amend the Partnership Agreement to (a) set forth a revised list of all Partners of the Partnership as of the date hereof and (b) reflect the withdrawal of the Withdrawing Partner from the Partnership.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereby agree as follows:

1. This Amendment shall be deemed effective as of the date first above written. Except as amended hereby, the Partnership Agreement shall remain in full force and effect and shall be otherwise unaffected hereby.
2. To evidence the redemption of the 6.45% Series S Cumulative Redeemable Preferred Units of the Withdrawing Partner and the withdrawal of the Withdrawing Partner as a Limited Partner of the Partnership, attached as **Schedule A** is a current list of Partners of the Partnership as of the date hereof.
3. The Withdrawing Partner is entering into this Amendment to evidence its withdrawal as a Limited Partner of the Partnership.
4. This Amendment shall be deemed to be a contract made under the laws of the State of California and for all purposes shall be governed by and construed in accordance with the laws of such state.

IN WITNESS WHEREOF, the undersigned has caused this Amendment to be executed and delivered as of the date first above written.

**GENERAL PARTNER**

PS Business Parks, Inc.

By: \_\_\_\_\_  
Name:  
Title:

**WITHDRAWING LIMITED PARTNER**

\_\_\_\_\_  
By: \_\_\_\_\_  
Name:  
Title:

## Revised Exhibit A to the Partnership Agreement

## EXHIBIT A (January 18, 2012)

<u>Name of Partner (Date of Admission)</u>	<u>Address</u>	<u>Agreed Value of Contributed Property (1)</u>	<u>Partnership Units</u>	<u>Percentage Interest</u>
<b>General Partner:</b>				
Total Common Shares		\$581,903,000	24,128,184	76.76%
Total Common Units		<u>\$121,890,000</u>	<u>7,305,355</u>	<u>23.24%</u>
TOTAL (General & Limited Partners; not Preferred Units)		\$703,793,000	31,433,539	100.00%
<b>Limited Partners (Series H Preferred Units):</b>				
PS Business Parks, Inc. (January 30, 2004)	701 Western Avenue Glendale, CA 91201	126,019,400	5,040,776	20.86%
PS Business Parks, Inc. (Reopen October 25, 2004)	701 Western Avenue Glendale, CA 91201	32,500,000	1,300,000	5.38%
<b>Limited Partners (Series I Preferred Units):</b>				
PS Business Parks, Inc. (April 21, 2004)	701 Western Avenue Glendale, CA 91201	68,626,250	2,745,050	11.36%
<b>Limited Partners (Series M Preferred Units):</b>				
PS Business Parks, Inc. (May 2, 2005)	701 Western Avenue Glendale, CA 91201	79,550,000	3,182,000	13.17%
<b>Limited Partners (Series N Preferred Units):</b>				
GSEP 2005 Realty Corp (December 12, 2005)	c/o Goldman Sachs & Co. 85 Broad Street New York, N.Y. 10004	5,582,500	223,300	0.92%
<b>Limited Partners (Series O Preferred Units):</b>				
PS Business Parks, Inc. (May 17, 2006)	701 Western Avenue Glendale, CA 91201	64,600,000	2,584,000	10.69%
PS Business Parks, Inc. (August 11, 2006)	701 Western Avenue Glendale, CA 91201	20,000,000	800,000	3.31%
<b>Limited Partners (Series P Preferred Units):</b>				
PS Business Parks, Inc. (January 17, 2007)	701 Western Avenue Glendale, CA 91201	132,250,000	5,290,000	21.89%
<b>Limited Partners (Series R Preferred Units):</b>				
PS Business Parks, Inc. (October 15, 2010)	701 Western Avenue Glendale, CA 91201	<u>75,000,000</u>	<u>3,000,000</u>	<u>12.41%</u>
TOTAL (Preferred Stock & Units)		<u>\$604,128,150</u>	<u>24,165,126</u>	<u>100.00%</u>

“p/f/o” means that the property contributed was "property formerly owned by" the entity noted in parenthesis.

- (1) Agreed value is the agreed gross value of the property at the time of contribution less any liabilities to which the property is subject at that time.

**PS BUSINESS PARKS, INC.****RETIREMENT PLAN FOR NON-EMPLOYEE DIRECTORS, as amended**1. PURPOSE.

The Plan is intended to promote the best interests of the Corporation by enhancing the Corporation's ability to attract and retain highly qualified non-employee directors and by rewarding the Corporation's current non-employee directors for their services to the Corporation.

2. DEFINITIONS.

Whenever the following terms are used in this Plan, they shall have the meaning specified below:

- (a) "Act" means the Securities Act of 1933, as amended.
- (b) "Administrator" means the Board or the Committee, whichever shall be administering the Plan from time to time in the discretion of the Board, as described in Section 4(a) of the Plan.
- (c) "Board" means the Board of Directors of the Corporation.
- (d) "Code" means the Internal Revenue Code of 1986, as amended.
- (e) "Committee" means the committee appointed by the Board in accordance with Section 4(a) of the Plan.
- (f) "Common Stock" means the common stock, par value \$.01 per share, of the Corporation.
- (g) "Corporation" means PS Business Parks, Inc., a California corporation.
- (h) "Directors" means, collectively, all non-employee directors, duly elected to the Board by the Corporation's stockholders or otherwise in accordance with the Corporation's Bylaws.
- (i) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.
- (j) "Fair Market Value" shall mean the value of one (1) Share of Common Stock, determined as follows, without regard to any restriction other than a restriction which, by its terms, will never lapse:
  - (i) If the Shares are traded on an exchange, the closing price per Share on the principal exchange on which Shares are listed on the date of valuation or, if no sales occurred on that date, then the average of the highest bid and lowest asked prices on such exchange at the end of the day on such date;

- (ii) If the Shares are not traded on an exchange but are otherwise traded over-the-counter, the average of the highest bid and lowest asked prices quoted in the National Association of Securities Dealers, Inc. Automated Quotation System (“NASDAQ”) as of the close of business on the date of valuation, or, if on such day such security is not quoted in the NASDAQ system, the average of the representative bid and asked prices on such date in the domestic over-the-counter market as reported by the National Quotation Bureau, Inc., or any similar successor organization; and
- (iii) If neither (i) nor (ii) applies, the fair market value as determined by the Administrator in good faith. Such determination shall be conclusive and binding on all persons.
- (k) “Grant” means any stock award granted pursuant to the Plan.
- (l) “Grantee” means a Director who has received a Grant pursuant to Section 4 hereof.
- (m) “Non-employee Director” for purposes of eligibility for Grants under this Plan means a director who is not employed as an officer, employee or consultant of the corporation while serving as a Director.
- (n) “Plan” means the PS Business Parks, Inc. Retirement Plan for Non-Employee Directors as it may be amended from time to time.
- (o) “Retirement” means a Director’s termination from service as a member of the Board, provided that no Director removed for cause from the Board shall be deemed to have retired from the Board.
- (p) “Service” means service as a non-employee director of the Corporation, including service prior to the adoption of the Plan.
- (q) “Share” means one (1) share of Common Stock, adjusted in accordance with Section 7 of the Plan (if applicable).

### 3. EFFECTIVE DATE.

The Plan was adopted by the Board and subsequently approved by stockholders of the Corporation on May 4, 2004 and is effective as of such date (the “Effective Date”). The Plan was amended to increase the maximum Grant under the Plan on December 14, 2011 effective on such date. The Plan has no termination date.

### 4. ADMINISTRATION AND ELIGIBILITY.

- (a) Administrator. The Plan shall be administered, in the discretion of the Board from time to time, by the Board or by the Nominating/Corporate Governance Committee or such other committee appointed by the Board that shall consist of not less than two (2) members of the Board each of whom is a “non-employee

director” within the meaning of Rule 16b-3 under the Exchange Act and an “outside director” within the meaning of Rule 162m of the Code. Subject to the express provisions of the Plan, the Administrator shall have the authority to construe and interpret the Plan and to define the terms used in the Plan, to prescribe, amend and rescind rules and regulations relating to the administration of the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The interpretation and construction by the Administrator of any provisions of the Plan and all other decisions of the Administrator shall be made in the Administrator’s sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Grant. No director or person acting pursuant to authority delegated by the Board shall be liable for any action or determination relating to or under the Plan or any Grant made in good faith.

- (b) Participation. The Grantees shall consist exclusively of non-employee Directors of the Corporation. Provided a Director otherwise meets the Service requirements for a Grant under the Plan, prior service as an employee of the Corporation shall not disqualify such Director from receiving a Grant under the Plan.

## 5. STOCK.

The stock subject to Grants awarded under the Plan shall be Shares of the Corporation’s authorized but unissued or reacquired Common Stock. The aggregate number of Shares which may be issued upon exercise of Grants under the Plan shall be seventy thousand (70,000), subject to any adjustment pursuant to Section 7 hereof. The number of Shares subject to additional Grants at any time shall not exceed the number of Shares remaining available for issuance under the Plan.

## 6. TERMS AND CONDITIONS OF GRANTS.

- (a) Grant of Deferred Stock Awards. Upon joining the Board, each Director shall be awarded a Grant of 7,000 deferred Shares of Common Stock of the Corporation vesting in seven (7) equal annual installments on each of the first seven (7) anniversaries of the date the Director commenced Service on the Board, subject to the availability of Shares as specified in Section 5 of the Plan. Each Director who is currently a member of the Board shall be awarded an additional Grant of 2,000 deferred shares which shall become vested on the sixth (6th) and seventh (7th) anniversaries of the date the Director commenced service on the Board. Shares shall be distributed to each Director in satisfaction of the Grant, to the extent vested, as soon as practicable after Retirement. The securities to be issued under this Plan shall be subject to adjustment in accordance with the provisions of Section 7 of the Plan.
- (b) Grant of Dividend Equivalent Rights. Each Director will be entitled to receive, upon the Company’s payment of a cash dividend on outstanding Shares, a cash payment for each the Director’s deferred Shares that is vested as of the record date for such dividend equal to the per-share dividend paid on Shares.

- (c) Payment of Taxes; Related Matters. In the event the Corporation determines it is required to withhold state, local or Federal income tax as a result of the grant of a Grant, the Corporation may require a Grantee to make arrangements satisfactory to the Corporation to enable it to satisfy such withholding requirements. Payment of such withholding requirements may be made, in the discretion of the Administrator, (i) in cash, (ii) by delivery of Shares registered in the name of the Grantee, or by the Corporation not issuing such number of Shares subject to the Grant having a Fair Market Value at the effective date of the Grant or the date of such vesting equal to the amount to be withheld, or (iii) any combination of (i) and (ii) above. An election under the preceding sentence may only be made during the period beginning on the third business day following the date of release of quarterly and annual summary statements of sales and earnings and ending on the twelfth business day following such date and only if such period occurs before the date the Corporation requires payment of the withholding tax. The election need not be made during such trading window if (a) it is made at least six (6) months prior to the date of the Grant or (b) counsel to the Corporation determines that compliance with such requirement is unnecessary. In addition, counsel to the Corporation may impose additional restrictions on the Grantee's ability to satisfy tax withholding with Shares if counsel determines such restrictions are in the best interests of the Corporation.

## 7. EFFECT OF CHANGES IN CAPITALIZATION.

7.1 Changes in Stock. If the number of outstanding Shares of Common Stock is increased or decreased or the Shares of Common Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company on account of any recapitalization, reclassification, stock split, reverse stock split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Company occurring after the Effective Date, the number and class of securities for which Grants may be made under the Plan, and the maximum Grant level upon Retirement, shall be appropriately adjusted by the Administrator to the extent determined by the Administrator. In the event of a spin-off by the Company of the shares of a subsidiary, a stock dividend for which the Company will claim a dividends paid deduction under Section 561 of the Code (or any successor provision), a pro rata distribution to all shareholders of other assets of the Company, or any distribution to holders of Shares other than an ordinary cash dividend, the Administrator may, but shall not be required to, make appropriate adjustments to the number and class of securities for which Grants shall be awarded and the maximum Grant level upon Retirement.

7.2 Reorganization, Sale of Assets or Sale of Stock Which Involves a Change of Control. Subject to the exceptions set forth in the last sentence of this Section 7.2, upon the occurrence of a "Change of Control" (as defined below), the Administrator may in its sole discretion make Grants of securities of a successor corporation, or a parent, subsidiary or affiliate thereof, with appropriate adjustments as to the number and class of securities, and the maximum Grant level upon Retirement, to the extent determined by the Administrator. For purposes of this Section 7.2, a "Change of Control" shall be deemed to occur upon (i) the dissolution or liquidation of the Company or upon a merger, consolidation, or reorganization of the Company



with one or more other entities in which the Company is not the surviving entity, (ii) a sale of substantially all of the assets of the Company to another entity, or (iii) any transaction (including without limitation a merger or reorganization in which the Company is the surviving corporation) which results in any person or entity (other than B. Wayne Hughes and members of his family and their affiliates) owning 50% or more of the combined voting power of all classes of stock of the Company. This Section 7.2 shall not apply to any Change of Control to the extent that (A) provision is made in writing in connection with such Change of Control for the continuation of the Plan and Grants or (B) a majority of the full Board determines that such Change of Control shall not trigger application of the provisions of this Section 7.2.

7.3 Adjustments. Adjustments under this Section 7 related to shares of Stock or securities of the Company shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

7.4 No Limitations on Company. The making of Grants pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate, or to sell or transfer all or any part of its business or assets.

## 8. SECURITIES LAW REQUIREMENTS.

- (a) Legality of Issuance. No Shares shall be issued upon the award of any Grant unless and until the Corporation has determined that:
  - (i) it and the Grantee have taken all actions required to register the award of the Shares under the Act, or to perfect an exemption from the registration requirements thereof;
  - (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed has been satisfied; and
  - (iii) any other applicable provision of state or Federal law has been satisfied.
- (b) Restrictions on Transfer; Representations of Grantee; Legends. Regardless of whether the award of Shares under the Plan has been registered under the Act or has been registered or qualified under the securities laws of any state, the Corporation may impose restrictions upon the sale, pledge or other transfer of such Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Corporation and its counsel, such restrictions are necessary or desirable in order to achieve compliance with the provisions of the Act, the securities laws of any state or any other law. In the event that the award of Shares under the Plan is not registered under the Act but an exemption is available which requires an investment representation or other representation, each Grantee shall be required to represent that such Shares are being acquired for investment, and not with a view to the sale or distribution thereof, and to make such other representations as are deemed necessary or appropriate by the

Corporation and its counsel. Stock certificates evidencing Shares acquired under the Plan pursuant to an unregistered transaction shall bear the following restrictive legend (or similar legend in the discretion of the Administrator) and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY NOT BE OFFERED FOR SALE, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SECURITIES UNDER THE SECURITIES ACT OF 1933 OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY IN FORM AND CONTENT TO THE ISSUER THAT SUCH REGISTRATION IS NOT REQUIRED UNDER SUCH ACT.”

Any determination by the Corporation and its counsel in connection with any of the matters set forth in this Section shall be conclusive and binding on all persons.

- (c) Registration or Qualification of Securities. The Corporation may, but shall not be obligated to, register or qualify the award of Shares pursuant to the Plan under the Act or any other applicable law. The Corporation shall not be obligated to take any affirmative action in order to cause the award of Shares under the Plan to comply with any law.
- (d) Exchange of Certificates. If, in the opinion of the Corporation and its counsel, any legend placed on a stock certificate representing Shares awarded under the Plan is no longer required, the holder of such certificate shall be entitled to exchange such certificate for a certificate representing the same number of Shares but without such legend.

#### 9. RIGHTS IN EVENT OF DEATH.

If the director ceases to be a member of the Board because of his or her death, the executor or administrator of the director's estate, or the person or persons to whom rights with respect to a Grant have passed by bequest or inheritance, as the case may be, shall be entitled to receive a Grant for the number of Shares the Director would have received had the Director elected Retirement from the Board effective as of such date.

#### 10. AMENDMENT OF THE PLAN.

The Board may, from time to time, with respect to any Shares at the time not subject to Grants, suspend or discontinue the Plan or revise or amend it in any respect whatsoever, provided that no amendment or revision shall adversely affect, without the affected Grantee's written consent, the rights of any Grantee to whom the Shares have been issued pursuant to the Plan.

11. GOVERNING LAW.

The validity and construction of this Plan and Grants hereunder shall be governed by the laws of the State of California.

12. APPROVAL OF STOCKHOLDERS.

The Plan shall be subject to approval by the affirmative vote of the holders of a majority of the outstanding shares present or represented and entitled to vote at the 2004 annual meeting of stockholders of the Corporation.

13. EXECUTION.

After adoption and approval by the Board of the Plan, as amended, the Corporation has caused its authorized officer to affix the corporate name and seal hereto as of December 20, 2011.

PS BUSINESS PARKS, INC.

By: /s/ Joseph D. Russell, Jr.

Name: Joseph D. Russell, Jr.

Title: President & Chief

Executive Officer

## PS BUSINESS PARKS, INC.

**STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
**(in thousands, except ratio data)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Income from continuing operations .....	\$ 99,543	\$96,401	\$91,442	\$84,188	\$80,683
Interest expense .....	<u>5,455</u>	<u>3,534</u>	<u>3,552</u>	<u>3,952</u>	<u>4,130</u>
Earnings from continuing operations available to cover fixed charges .....	<u>\$104,998</u>	<u>\$99,935</u>	<u>\$94,994</u>	<u>\$88,140</u>	<u>\$84,813</u>
Fixed charges (1) .....	\$ 5,455	\$ 3,534	\$ 3,552	\$ 3,952	\$ 4,130
Preferred stock dividends .....	41,799	46,214	17,440	46,630	50,937
Preferred partnership distributions .....	<u>(6,991)</u>	<u>5,103</u>	<u>(2,569)</u>	<u>7,007</u>	<u>6,854</u>
Combined fixed charges and preferred distributions .....	<u>\$ 40,263</u>	<u>\$54,851</u>	<u>\$18,423</u>	<u>\$57,589</u>	<u>\$61,921</u>
Ratio of earnings from continuing operations to fixed charges .....	<u>19.2</u>	<u>28.3</u>	<u>26.7</u>	<u>22.3</u>	<u>20.5</u>
Ratio of earnings from continuing operations to combined fixed charges and preferred distributions .....	<u>2.6</u>	<u>1.8</u>	<u>5.2</u>	<u>1.5</u>	<u>1.4</u>

## Supplemental disclosure of Ratio of Funds from Operations ("FFO") to fixed charges:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
FFO .....	\$149,797	\$124,420	\$163,074	\$131,558	\$122,405
Interest expense .....	5,455	3,534	3,552	3,952	4,130
Net income allocable to noncontrolling interests — preferred units .....	(6,991)	5,103	(2,569)	7,007	6,854
Preferred stock dividends .....	<u>41,799</u>	<u>46,214</u>	<u>17,440</u>	<u>46,630</u>	<u>50,937</u>
FFO available to cover fixed charges .....	<u>\$190,060</u>	<u>\$179,271</u>	<u>\$181,497</u>	<u>\$189,147</u>	<u>\$184,326</u>
Fixed charges (1) .....	\$ 5,455	\$ 3,534	\$ 3,552	\$ 3,952	\$ 4,130
Preferred stock dividends (2) .....	41,799	42,730	44,662	50,858	50,937
Preferred partnership distributions (2) .....	<u>398</u>	<u>4,521</u>	<u>5,848</u>	<u>7,007</u>	<u>6,854</u>
Combined fixed charges and preferred distributions paid .....	<u>\$ 47,652</u>	<u>\$ 50,785</u>	<u>\$ 54,062</u>	<u>\$ 61,817</u>	<u>\$ 61,921</u>
Ratio of adjusted FFO to fixed charges .....	<u>34.8</u>	<u>50.7</u>	<u>51.1</u>	<u>47.9</u>	<u>44.6</u>
Ratio of adjusted FFO to combined fixed charges and preferred distributions paid .....	<u>4.0</u>	<u>3.5</u>	<u>3.4</u>	<u>3.1</u>	<u>3.0</u>

(1) Fixed charges include interest expense.

(2) Excludes the issuance costs related to the redemption/repurchase of preferred equity and the gain on the repurchase of preferred equity.

### List of Subsidiaries

The following sets forth the subsidiaries of the Registrant and their respective states of incorporation or organization:

<u>Name</u>	<u>State</u>
American Office Park Properties, TPGP, Inc.	California
PSBP QRS, Inc.	California
Hernmore, Inc.	Maryland
AOPP Acquisition Corp. Two	California
Tenant Advantage, Inc.	California
PS Business Parks, L.P.	California
PSBP Northpointe D, L.L.C.	Virginia
Monroe Parkway, L.L.C.	Virginia
2767 Prosperity Way, L.L.C.	California
Metro Park I, L.L.C.	Delaware
Metro Park II, L.L.C.	Delaware
Metro Park III, L.L.C.	Delaware
Metro Park IV, L.L.C.	Delaware
Metro Park V, L.L.C.	Delaware
PS Metro Park, L.L.C.	Delaware
PSB Lancaster, L.L.C.	Delaware
PSB Northern California Industrial Portfolio, L.L.C.	Delaware
PSBP Springing Member, L.L.C.	Delaware
PSBP Westwood GP, L.L.C.	Delaware
PSBP Industrial, L.L.C.	Delaware
Miami International Commerce Center	Florida
REVX-098, L.L.C.	Delaware
PS Rose Canyon, L.L.C.	Delaware
GB, L.L.C.	Maryland
PSBP Meadows L.L.C.	Delaware
PSBP Meadows Member L.L.C.	Delaware
PSB Boca Commerce Park, L.L.C.	Delaware
PSB Wellington Commerce Park I, L.L.C.	Delaware
PSB Wellington Commerce Park II, L.L.C.	Delaware
PSB Wellington Commerce Park III, L.L.C.	Delaware

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-48313) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 1997 Stock Option and Incentive Plan, the Registration Statement on Form S-8 (No. 333-50274) of PS Business Parks, Inc. pertaining to the PS 401(k)/ Profit Sharing Plan, the Registration Statement on Form S-8 (No. 333-104604) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 2003 Stock Option and Incentive Plan, the Registration Statement on Form S-8 (No. 333-129463) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. Retirement Plan for Non-Employee Directors and the Registration Statement on Form S-3 (No. 333-160104) and the related prospectus of our reports dated February 24, 2012 with respect to the consolidated financial statements and related financial statement schedule of PS Business Parks, Inc., and the effectiveness of internal control over financial reporting of PS Business Parks, Inc., included in this Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission.

/s/ Ernst & Young, LLP

Los Angeles, California  
February 24, 2012

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph D. Russell, Jr. certify that:

1. I have reviewed this annual report on Form 10-K of PS Business Parks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Joseph D. Russell, Jr.

Name: Joseph D. Russell, Jr.  
Title: Chief Executive Officer  
Date: February 24, 2012

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Edward A. Stokx certify that:

1. I have reviewed this annual report on Form 10-K of PS Business Parks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Edward A. Stokx

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Name: Edward A. Stokx  
Title: Chief Financial Officer  
Date: February 24, 2012



**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to**

**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of PS Business Parks, Inc. (the "Company") for the period ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Joseph D. Russell Jr., as Chief Executive Officer of the Company, and Edward A. Stokx, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph D. Russell, Jr.

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Name: Joseph D. Russell, Jr.  
Title: Chief Executive Officer  
Date: February 24, 2012

/s/ Edward A. Stokx

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Name: Edward A. Stokx  
Title: Chief Financial Officer  
Date: February 24, 2012