UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2015

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	95-4300881
(State or Other Jurisdiction	(I.R.S. Employer

of Incorporation) Identification Number)

701 Western Avenue, Glendale, California 91201-2397

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (818) 244-8080

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer 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 July 27, 2015, the number of shares of the registrant's common stock, $0.01 par value per share, outstanding was 26,971,885.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PS BUSINESS PARKS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 200,194	$ 152,467
Real estate facilities, at cost:		
Land	793,569	793,569
Buildings and improvements	2,200,094	2,182,993
	2,993,663	2,976,562
Accumulated depreciation	(1,036,023)	(991,497)
	1,957,640	1,985,065
Properties held for disposition, net	14,267	25,937
Land and building held for development	26,288	24,442
	1,998,195	2,035,444
Rent receivable, net	4,538	2,838
Deferred rent receivable, net	28,199	26,050
Other assets	8,493	10,315
Total assets	$ 2,239,619	$ 2,227,114
LIABILITIES AND EQUITY		
Accrued and other liabilities	$ 70,014	$ 68,905
Mortgage note payable	250,000	250,000
Total liabilities	320,014	318,905

Commitments and contingencies		
Equity:		
PS Business Parks, Inc.'s shareholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 39,800 shares issued and outstanding at June 30, 2015 and December 31, 2014	995,000	995,000
Common stock, $0.01 par value, 100,000,000 shares authorized, 26,971,885 and 26,919,161 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	268	268
Paid-in capital	714,182	709,008
Cumulative net income	1,306,231	1,244,946
Cumulative distributions	(1,293,133)	(1,235,941)
Total PS Business Parks, Inc.'s shareholders' equity	1,722,548	1,713,281
Noncontrolling interests:		
Common units	197,057	194,928
Total noncontrolling interests	197,057	194,928
Total equity	1,919,605	1,908,209
Total liabilities and equity	$ 2,239,619	$ 2,227,114

See accompanying notes.

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PS BUSINESS PARKS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited, in thousands, except per share data)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Rental income	$ 92,948	$ 93,986	$ 185,263	$ 189,307
Facility management fees	133	165	280	331
Total operating revenues	93,081	94,151	185,543	189,638
Expenses:				
Cost of operations	30,057	31,535	61,803	64,979
Depreciation and amortization	27,025	28,295	53,258	56,736
General and administrative	3,497	3,363	6,896	5,850
Total operating expenses	60,579	63,193	121,957	127,565
Other income and (expense):				
Interest and other income	145	95	252	157
Interest and other expense	(3,338)	(3,403)	(6,661)	(6,779)
Total other income and (expense)	(3,193)	(3,308)	(6,409)	(6,622)
Gain on sale of real estate facilities	—	—	12,487	—
Net income	$ 29,309	$ 27,650	$ 69,664	$ 55,451
Net income allocation:				
Net income allocable to noncontrolling interests:				
Noncontrolling interests — common units	$ 3,016	$ 2,669	$ 8,379	$ 5,372
Total net income allocable to noncontrolling interests	3,016	2,669	8,379	5,372
Net income allocable to PS Business Parks, Inc.:				
Preferred shareholders	15,122	15,122	30,244	30,244
Restricted stock unit holders	42	33	140	69
Common shareholders	11,129	9,826	30,901	19,766
Total net income allocable to PS Business Parks, Inc.	26,293	24,981	61,285	50,079
Net income	$ 29,309	$ 27,650	$ 69,664	$ 55,451
Net income per common share:				
Basic	$ 0.41	$ 0.37	$ 1.15	$ 0.74
Diluted	$ 0.41	$ 0.36	$ 1.14	$ 0.73

Weighted average common shares outstanding:				
Basic	26,956	26,899	26,941	26,881
Diluted	27,033	26,999	27,027	26,981
Dividends declared per common share	$ 0.50	$ 0.50	$ 1.00	$ 1.00

See accompanying notes.

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PS BUSINESS PARKS, INC.

CONSOLIDATED STATEMENT OF EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2015

(Unaudited, in thousands, except share data)

	Preferred Stock		Common Stock		Paid-in	Cumulative	Cumulative	Total PS Business Parks, Inc.'s Shareholders'	Noncontr
	Shares	Amount	Shares	Amount	Capital	Net Income	Distributions	Equity	Interests
Balances at December 31, 2014	39,800	$ 995,000	26,919,161	$ 268	$ 709,008	$ 1,244,946	$ (1,235,941)	$ 1,713,281	$ 194,928
Exercise of stock options	—	—	39,500	—	2,000	—	—	2,000	—
Stock compensation, net	—	—	13,224	—	4,229	—	—	4,229	—
Net income	—	—	—	—	—	61,285	—	61,285	8,379
Distributions:									
Preferred stock	—	—	—	—	—	—	(30,244)	(30,244)	—
Common stock	—	—	—	—	—	—	(26,948)	(26,948)	—
Noncontrolling interests	—	—	—	—	—	—	—	—	(7,305)
Adjustment to noncontrolling interests in underlying operating partnership	—	—	—	—	(1,055)	—	—	(1,055)	1,055
Balances at June 30, 2015	39,800	$ 995,000	26,971,885	$ 268	$ 714,182	$ 1,306,231	$ (1,293,133)	$ 1,722,548	$ 197,057

See accompanying notes.

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PS BUSINESS PARKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	For The Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$ 69,664	$ 55,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	53,258	56,736
In-place lease adjustment	(663)	(441)
Tenant improvement reimbursements net of lease incentives	(940)	(839)
Gain on sale of real estate facilities	(12,487)	—
Stock compensation	5,037	3,898
Decrease (increase) in receivables and other assets	(2,954)	4,664
Increase (decrease) in accrued and other liabilities	530	(2,959)
Total adjustments	41,781	61,059
Net cash provided by operating activities	111,445	116,510
Cash flows from investing activities:		
Capital expenditures to real estate facilities	(23,865)	(22,250)
Capital expenditures to land and building held for development	(1,846)	(1,219)
Proceeds from sale of real estate facilities	24,490	—
Net cash used in investing activities	(1,221)	(23,469)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	2,000	2,443
Distributions paid to preferred shareholders	(30,244)	(30,244)
Distributions paid to noncontrolling interests — common units	(7,305)	(7,305)
Distributions paid to common shareholders	(26,948)	(26,893)
Net cash used in financing activities	(62,497)	(61,999)
Net increase in cash and cash equivalents	47,727	31,042
Cash and cash equivalents at the beginning of the period	152,467	31,481
Cash and cash equivalents at the end of the period	$ 200,194	$ 62,523
Supplemental schedule of non-cash investing and financing activities:		
Adjustment to noncontrolling interests in underlying operating partnership:		
Noncontrolling interests — common units	$ 1,055	$ 984

Paid-in capital	$ (1,055)	$ (984)

See accompanying notes.

PS BUSINESS PARKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

1. Organization and description of business

PS Business Parks, Inc. ("PSB") was incorporated in the state of California in 1990. As of June 30, 2015, PSB owned 77.8% 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 its subsidiaries, including the Operating Partnership are collectively referred to as the "Company." Assuming issuance of the Company's common stock upon redemption of its partnership units, PS would own 42.2% (or 14.5 million shares) of the outstanding shares of the Company's common stock.

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 June 30, 2015, the Company owned and operated 28.4 million rentable square feet of commercial space concentrated primarily in six states. The Company also manages 838,000 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 review 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 unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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 interests is included in consolidated net income on the face of the income statement and, upon a gain or loss of control, the interests purchased or sold, as well as any interests retained, are recorded at fair value with any gain or loss recognized in earnings. 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 interests based upon the ownership interest, and an adjustment is made to the noncontrolling interests, with a corresponding adjustment to paid-in capital, to reflect the noncontrolling interests' equity interest in the Company.

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Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP 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 June 30, 2015 and December 31, 2014. Deferred rent receivable is net of an allowance for uncollectible accounts totaling $877,000 and $841,000 at June 30, 2015 and December 31, 2014, respectively.

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 determines the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. This hierarchy requires the use of observable market data when available. The following is the fair value hierarchy:

- Level 1—quoted prices for identical instruments in active markets;
- Level 2—quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3—fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and receivables. 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. 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. 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.

Carrying values of the Company's mortgage note payable and unsecured credit facility approximate fair value. The characteristics of these financial instruments, market data and other comparative metrics utilized in determining these fair values are "Level 2" inputs.

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

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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 less than $1,000 or for leases of one year or less are expensed as incurred.

Land and building held for development

Property taxes, insurance, interest and costs essential to the development of property for its intended use are capitalized during the period of development. Upon classification of an asset as held for development, depreciation of the asset is ceased.

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, depreciation of the asset is ceased, and the net book value of the asset is included on the balance sheet as properties held for disposition.

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.

As of June 30, 2015, the value of in-place leases resulted in net intangible assets of $2.0 million, net of $8.3 million of accumulated amortization with a weighted average amortization period of 8.4 years, and net intangible liabilities of $2.7 million, net of $8.1 million of accumulated amortization with a weighted average amortization period of 4.8

years. As of December 31, 2014, the value of in-place leases resulted in net intangible assets of $2.5 million, net of $7.8 million of accumulated amortization and net intangible liabilities of $3.9 million, net of $6.9 million of accumulated amortization.

The Company recorded net increases in rental income of $352,000 and $244,000 for the three months ended June 30, 2015 and 2014, respectively, and $663,000 and $441,000 for the six months ended June 30, 2015 and 2014, respectively, due to the amortization of net intangible liabilities resulting from the above-market and below-market lease values.

Evaluation of asset impairment

The Company evaluates its assets used in operations for impairment 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 June 30, 2015, the Company did not consider any assets to be impaired.

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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 11.

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 have been 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 uses 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 expenses, 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 of 1986, as amended. 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. 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 2014 and intends to continue to meet such requirements for 2015. 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 June 30, 2015, 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. Such issuance costs are recorded as non-cash preferred equity distributions at the time the Company notifies the holders of preferred stock or units of its intent to redeem such shares or units.

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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 are included in the computation of basic and diluted weighted average common shares outstanding. The Company’s 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 (in thousands, except per share amounts):

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2015	2014	2015	2014
Net income allocable to common shareholders	$ 11,129	$ 9,826	$ 30,901	$ 19,766
Weighted average common shares outstanding:				
Basic weighted average common shares outstanding	26,956	26,899	26,941	26,881
Net effect of dilutive stock compensation — based on treasury stock method using average market price	77	100	86	100
Diluted weighted average common shares outstanding	27,033	26,999	27,027	26,981
Net income per common share — Basic	$ 0.41	$ 0.37	$ 1.15	$ 0.74
Net income per common share — Diluted	$ 0.41	$ 0.36	$ 1.14	$ 0.73

Options to purchase 46,000 and 16,000 shares for the three months ended June 30, 2015 and 2014, respectively, were not included in the computation of diluted net income per share because such options were considered anti-dilutive. Options to purchase 32,000 and 14,000 shares for the six months ended June 30, 2015 and 2014, 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 2014 in order to conform to the 2015 presentation.

Recently issued accounting standards

In May, 2014, the FASB issued new accounting guidance which amended the existing accounting standards for revenue recognition. The new accounting guidance establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. This guidance is currently effective for the Company’s fiscal year beginning January 1, 2018. Early adoption is permitted for the Company’s fiscal year beginning January 1, 2017. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the new accounting guidance on its consolidated financial statements.

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3. Real estate facilities

The activity in real estate facilities for the six months ended June 30, 2015 is as follows (in thousands):

	Land	Buildings and Improvements	Accumulated Depreciation	Total
Balances at December 31, 2014	$ 793,569	$ 2,182,993	$ (991,497)	$ 1,985,065
Capital expenditures, net	—	25,685	—	25,685
Disposals	—	(8,254)	8,254	—
Depreciation and amortization	—	—	(53,258)	(53,258)
Transfer to properties held for disposition	—	(330)	478	148
Balances at June 30, 2015	$ 793,569	$ 2,200,094	$ (1,036,023)	$ 1,957,640

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

On February 27, 2015, as part of an eminent domain process with the Central Puget Sound Regional Transit Authority, the Company sold five buildings, aggregating 82,000 square feet, at the Company’s Overlake Business Park located in Redmond, Washington, for $13.9 million, which resulted in a net gain of $4.8 million.

On February 13, 2015, the Company completed the sale of Milwaukie Business Park located in Milwaukie, Oregon, for net proceeds of $10.6 million, which resulted in a net gain of $7.6 million. The park consists of six multi-tenant flex buildings aggregating 102,000 square feet.

The five buildings at the Company's Overlake Business Park, Milwaukie Business Park, as well as a 23,000 square foot building in Tempe, Arizona, and two business parks aggregating 367,000 square feet in Sacramento, California, have been classified as properties held for disposition as of December 31, 2014, while the 23,000 square foot building in Tempe, Arizona and the two business parks aggregating 367,000 square feet in Sacramento, California, continued to be classified as property held for disposition as of June 30, 2015.

Subsequent to June 30, 2015, the Company completed the sale of the two business parks located in Sacramento, California, noted above, for net proceeds of $29.3 million.

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The Company has a 125,000 square foot building located in Northern Virginia classified as land and building held for development. The Company has entered into a joint venture, in which it will maintain a 95.0% economic interest, with a real estate development company to pursue a ground-up multi-family development on the site. Prior to the property being contributed, all costs related to the pre-development are split evenly between the Company and its joint venture partner. As of June 30, 2015, the Company has received all required entitlements, allowing it to develop a multi-family building up to 450,000 square feet on the property. The property will be contributed to the joint venture upon commencement of construction, which is anticipated to occur in late 2015 or early 2016. The land and capitalized development costs were $20.2 million and $18.4 million at June 30, 2015 and December 31, 2014, respectively. For the six months ended June 30, 2015, the Company capitalized costs of $1.8 million related to this development, of which $531,000 were capitalized interest costs.

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 under these leases, are as follows as of June 30, 2015 (in thousands):

2015	$	136,970
2016		228,471
2017		168,971
2018		119,817
2019		80,736
Thereafter		137,622
Total	$	872,587

In addition to minimum rental payments, certain tenants reimburse the Company for their pro rata share of specified operating expenses. Such reimbursements amounted to $19.9 million and $19.8 million for the three months ended June 30, 2015 and 2014, respectively, and $40.0 million and $40.8 million for the six months ended June 30, 2015 and 2014, respectively. These amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for 4.2% of total leased square footage are subject to termination options, of which 1.1% of total leased square footage have termination options exercisable through December 31, 2015 (unaudited). In general, these leases provide for termination payments should the termination options be exercised. The future minimum rental revenues in the above table assume such options are not exercised.

5. Bank loans

The Company has a line of credit (the “Credit Facility”) with Wells Fargo Bank, National Association (“Wells Fargo”). The Credit Facility has a borrowing limit of $250.0 million and expires May 1, 2019. The rate of interest charged on borrowings is based on the London Interbank Offered Rate (“LIBOR”) plus 0.875% to LIBOR plus 1.70% depending on the Company’s credit ratings. Currently, the Company’s rate under the Credit Facility is LIBOR plus 0.925%. In addition, the Company is required to pay an annual facility fee ranging from 0.125% to 0.30% of the borrowing limit depending on the Company’s credit ratings (currently 0.15%). The Company had no balance outstanding on the Credit Facility at June 30, 2015 and December 31, 2014. The Company had $885,000 and $1.0 million of unamortized commitment fees as of June 30, 2015 and December 31, 2014, respectively. The Credit Facility requires the Company to meet certain covenants, all of which the Company was in compliance with as of June 30, 2015. Interest on outstanding borrowings is payable monthly.

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6. Mortgage note payable

The Company has one mortgage note payable with a fixed interest rate of 5.45%, secured by 4.8 million square feet of commercial properties with a net book value of $423.2 million. The interest is payable monthly, and the mortgage note payable has a maturity date of December, 2016. The Company had $250.0 million outstanding on the mortgage note payable as of June 30, 2015 and December 31, 2014.

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 June 30, 2015, there were 7,305,355 common units owned by PS, which are accounted for as noncontrolling interests. Combined with PS's existing common stock ownership, on a fully converted basis, PS has a combined ownership of 42.2% (or 14.5 million shares) of the Company's common equity.

8. Related party transactions

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 are 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,

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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 $133,000 and $165,000 for the three months ended June 30, 2015 and 2014, respectively and $280,000 and $331,000 for the six months ended June 30, 2015 and 2014, 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 is responsible for establishing the 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 $19,000 and $17,000 for the three months ended June 30, 2015 and 2014, respectively, and $38,000 and $33,000 for the six months ended June 30, 2015 and 2014, respectively.

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PS for certain administrative services and rental of corporate office space, which are allocated to PS in accordance with a methodology intended to fairly allocate those costs. These costs totaled $117,000 and $118,000 for the three months ended June 30, 2015 and 2014, respectively, and $235,000 and $226,000 for the six months ended June 30, 2015 and 2014, respectively.

The Company had net amounts due to PS of $101,000 at June 30, 2015 and due from PS of $166,000 December 31, 2014, 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 June 30, 2015 and December 31, 2014, the Company had the following series of preferred stock outstanding:

Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	Shares Outstanding	Amount (in thousands)
Series R	October, 2010	October, 2015	6.875%	3,000	$ 75,000
Series S	January, 2012	January, 2017	6.450%	9,200	230,000
Series T	May, 2012	May, 2017	6.000%	14,000	350,000
Series U	September, 2012	September, 2017	5.750%	9,200	230,000
Series V	March, 2013	March, 2018	5.700%	4,400	110,000
Total				39,800	$ 995,000

The Company paid $15.1 million and $30.2 million in distributions to its preferred shareholders for each of the three and six months ended June 30, 2015 and 2014, respectively.

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Holders 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 June 30, 2015, 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. The Company had $31.8 million of deferred costs in connection with the issuance of preferred stock as of June 30, 2015 and December 31, 2014, which the Company will report as additional non-cash distributions upon notice of its intent to redeem such shares.

Common stock

No shares of common stock were repurchased under the board approved common stock repurchase program during either of the six months ended June 30, 2015 and 2014.

The Company paid $13.5 million ($0.50 per common share) and $26.9 million ($1.00 per common share) in distributions to its common shareholders for each of the three and six months ended June 30, 2015 and 2014, respectively.

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 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. Commitments and contingencies

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.

11. Stock compensation

PSB has a 2003 Stock Option and Incentive Plan (the "2003 Plan") and a 2012 Equity and Performance-Based Incentive Compensation Plan (the "2012 Plan") covering 1.5 million and 1.0 million shares of PSB's common stock, respectively. Under the 2003 Plan and 2012 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 2003 Plan and 2012 Plan, PSB has granted restricted shares of common stock to certain directors and restricted stock units to officers and key employees.

The weighted average grant date fair value of options granted during the six months ended June 30, 2015 and 2014 was $8.49 per share and $10.95 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 during the six months ended June 30, 2015 and 2014, respectively: a dividend yield of 2.5% and 2.3% expected volatility of 16.1% and 17.7%; expected life of five years; and risk-free interest rates of 1.4% and 1.7%.

The weighted average grant date fair value of restricted stock units granted during the six months ended June 30, 2015 was $83.47. The Company calculated the fair value of each restricted stock unit grant using the market value on the date of grant. No restricted stock units were granted for the six months ended June 30, 2014.

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At June 30, 2015, there was a combined total of 842,000 options and restricted stock units authorized to be granted.

Information with respect to outstanding options and nonvested restricted stock units granted under the 2003 Plan and 2012 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, 2014	341,852	$ 57.11		
Granted	16,000	$ 80.13		
Exercised	(39,500)	$ 50.63		
Forfeited	—	$ —		
Outstanding at June 30, 2015	318,352	$ 59.07	5.30 Years	$ 4,564
Exercisable at June 30, 2015	252,606	$ 55.04	4.55 Years	$ 4,396

Restricted Stock Units:	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2014	35,170	$ 65.62
Granted	66,506	$ 83.47
Vested	(21,184)	$ 76.73
Forfeited	(4,120)	$ 74.25
Nonvested at June 30, 2015	76,372	$ 77.61

Effective March, 2014, the Company entered into a performance-based restricted stock unit program, the Senior Management Long-Term Equity Incentive Program for 2014-2017 (“2014 LTEIP”), with certain employees of the Company. Under the 2014 LTEIP, the Company established three levels of targeted restricted stock unit awards for certain employees, which would be earned only if the Company achieved one of three defined targets during 2014 to 2017. Under the 2014 LTEIP there is an annual award following the end of each of the four years in the program, with the award subject to and based on the achievement of total return targets during the previous year, as well as an award based on achieving total return targets during the cumulative four-year period 2014-2017. In the event the minimum defined target is not achieved for an annual award, the shares allocated to be awarded for such year are added to the shares that may be received if the four-year target is achieved. All restricted stock unit awards under the 2014 LTEIP vest in four equal annual installments beginning from the date of award. Up to 98,600 restricted stock units would be granted for each of the four years assuming achievement was met and up to 84,514 restricted stock units would be granted for the cumulative four-year period assuming achievement was met. Compensation expense is recognized based on the shares expected to be awarded based on the target level that is expected to be achieved. Net compensation expense of $2.4 million related to the 2014 LTEIP was recognized during each of the three months ended June 30, 2015 and 2014 and $4.5 million and $3.2 million for the six months ended June 30, 2015 and 2014, respectively.

The 2014 LTEIP targets for 2014 were achieved at the threshold total return level. As such, 66,506 restricted stock units were granted during the six months ended June 30, 2015 at a weighted average grant date fair value of $83.47.

Included in the Company’s consolidated statements of income for the three months ended June 30, 2015 and 2014, was $49,000 and $108,000, respectively, in net compensation expense related to stock options. Net compensation expense of $177,000 and $230,000 related to stock options was recognized during the six months ended June 30, 2015 and 2014, respectively. Excluding the 2014 LTEIP amortization of $2.4 million for each period, net compensation expense of $84,000 and $108,000 related to restricted stock units was recognized during the three months ended June 30, 2015 and 2014, respectively. Excluding the 2014 LTEIP amortization of $4.5 million and $3.2 million, respectively, net compensation expense of $192,000 and $284,000 related to restricted stock units was recognized during the six months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, there was $496,000 of unamortized compensation expense related to stock options expected to be recognized over a weighted average period of 3.4 years. As of June 30, 2015, there was $24.3 million (includes $23.0 million from the 2014 LTEIP) of unamortized compensation expense related to restricted stock units expected to be recognized over a weighted average period of 4.7 years.

Cash received from 39,500 stock options exercised during the six months ended June 30, 2015 was $2.0 million. Cash received from 49,273 stock options exercised during the six months ended June 30, 2014 was $2.4 million. The aggregate intrinsic value of the stock options exercised was $1.0 million and $1.7 million during the six months ended June 30, 2015 and 2014, respectively.

During the six months ended June 30, 2015, 21,184 restricted stock units vested (16,634 related to the 2014 LTEIP); in settlement of these units, 13,224 shares were issued (10,495 related to the 2014 LTEIP), net of shares applied to payroll taxes. The aggregate fair value of the shares vested for the six months ended June 30, 2015 was $1.7 million ($1.3 million related to the 2014 LTEIP). During the six months ended June 30, 2014, 8,430 restricted stock units vested; in settlement of these units, 5,341 shares were issued, net of shares applied to payroll taxes. The aggregate fair value of the shares vested for the six months ended June 30, 2014 was $708,000.

In April, 2015, the shareholders of the Company approved the issuance of up to 130,000 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 8,000 shares issued upon retirement. The Company recognizes compensation expense over the requisite service period. As a result, included in the Company’s consolidated statements of income was $79,000 and $77,000 in compensation expense for the three months ended June 30, 2015 and 2014, respectively and $158,000 and $153,000 for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, there was $1.4 million and $1.3 million, respectively, of unamortized compensation expense related to these shares. No shares were issued during the six months ended June 30, 2015 and 2014.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements: Forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, are made throughout this Quarterly Report on Form 10-Q. 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 sim 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 real estate investment trust (“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; and (k) other factors discussed under the heading “Part I, Item 1A. Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2014. 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.

Overview

As of June 30, 2015, the Company owned and operated 28.4 million rentable square feet of multi-tenant flex, industrial and office properties concentrated primarily in six states. All operating metrics discussed in this section as of and for the three and six months ended June 30, 2015 and 2014 exclude assets held for sale or sold. Management believes excluding the results of such assets provides the most relevant perspective on the ongoing operations of the Company. Please refer to “Part I, Item 1. Financial Statements” included in this Quarterly Report on Form 10-Q for financial metrics that include results from assets held for sale or sold.

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 and minimizing capital expenditures 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. Operating results are driven primarily by income from rental operations and are therefore substantially influenced by demand for rental space within our properties and our markets, which impacts occupancy, rental rates and capital requirements.

During the first six months of 2015, the Company executed leases comprising 4.8 million square feet of space including 2.6 million square feet of renewals of existing leases and 2.2 million square feet of new leases. Overall, the change in rental rates for the Company continued to improve. 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 Quarterly Report on Form 10-Q. 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 are more fully described in "Part I, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2014.

Effect of Economic Conditions on the Company's Operations: During the first six months of 2015, most markets continued to reflect signs of improving occupancy and rental rates. Overall, new rental rates for the Company improved over expiring rental rates on executed leases as economic conditions continue to improve. The Virginia and Maryland markets continue to recover at a slower pace than other markets and given lease expirations over the next

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twelve months, the Company may continue to experience rental rate volatility and modest growth in occupancy in these markets.

Tenant Credit Risk: The Company historically has experienced a low level of write-offs of uncollectable rents, but there is inherent uncertainty in a tenant's ability to continue paying rent and meet its 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 Six Months Ended June 30,	
	2015	2014
Write-offs of uncollectible rent	$ 364	$ 559
Write-offs as a percentage of rental income	0.2%	0.3%
Square footage of leases terminated prior to their scheduled expiration due to business failures/bankruptcies	273	144
Accelerated depreciation and amortization related to unamortized tenant improvements and lease commissions associated with early terminations	$ 396	$ 286

As of July 27, 2015, the Company had 54,000 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, reductions 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: During the six months ended June 30, 2015, initial rental rates on new and renewed leases within the Company's total portfolio increased 4.0% over expiring rents, a significant improvement from the year ended December 31, 2014, in which initial rental rates on new and renewed leases increased by 0.5%. The Company's Same Park (defined below) occupancy rate at June 30, 2015 was 93.9%, compared to 92.6% at June 30, 2014. The Company's total portfolio occupancy rate at June 30, 2015 was 93.4%, compared to 91.7% at June 30, 2014. The Company's operations are substantially concentrated in eight regions. Each of the eight 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.

Effect of Acquisitions and Dispositions of Properties on the Company's Operations: The Company is focused on growing its operations by looking for opportunities to expand its presence in existing and new markets through strategic acquisitions that meet the Company's focus on multi-tenant flex, industrial and office parks in markets where it has or may obtain a substantial market presence. The Company may from time to time dispose of assets based on market conditions.

As of June 30, 2015, the blended occupancy rate of the nine assets acquired during 2013 and 2014 was 87.4% compared to a blended occupancy rate of 66.1% at the time of acquisition. As of June 30, 2015, the Company had 279,000 square feet of vacant space spread over these acquisitions, which we believe provides the Company with considerable opportunity to generate additional rental income given that the Company's Same Park assets in these same submarkets have a weighted average occupancy of 95.2% at June 30, 2015. The table below contains the assets acquired from 2013 to 2014 (dollars and square feet in thousands):

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Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at Acquisition	Occupancy at June 30, 2015
Charcot Business Park II	December, 2014	San Jose, California	$ 16,000	119	96.7%	91.2%
McNeil 1	November, 2014	Austin, Texas	10,550	246	53.3%	79.7%
Springlake Business Center II	August, 2014	Dallas, Texas	5,148	145	35.4%	60.5%
Arapaho Business Park 9	July, 2014	Dallas, Texas	1,134	19	100.0%	100.0%
MICC — Center 23	July, 2014	Miami, Florida	12,725	149	0.0%	100.0%
Bayshore Corporate Commons	December, 2013	San Mateo, California	60,500	340	81.8%	82.8%
Valwood Business Park	November, 2013	Dallas, Texas	12,425	245	83.5%	95.6%
Dallas Flex Portfolio	October, 2013	Dallas, Texas	27,900	559	72.1%	89.8%
Arapaho Business Park	July, 2013	Dallas, Texas	14,750	389	66.5%	91.0%
Total			$ 161,132	2,211	66.1%	87.4%

On February 27, 2015, as part of an eminent domain process with the Central Puget Sound Regional Transit Authority, the Company sold five buildings, aggregating 82,000 square feet, at the Company's Overlake Business Park located in Redmond, Washington, for $13.9 million, which resulted in a net gain of $4.8 million.

On February 13, 2015, the Company completed the sale of Milwaukie Business Park located in Milwaukie, Oregon, for net proceeds of $10.6 million, which resulted in a net gain of $7.6 million. The park consists of six multi-tenant flex buildings aggregating 102,000 square feet.

The five buildings at the Company's Overlake Business Park, Milwaukie Business Park, as well as a 23,000 square foot building in Tempe, Arizona, and two business parks aggregating 367,000 square feet in Sacramento, California, have been classified as properties held for disposition as of December 31, 2014, while the 23,000 square foot building in Tempe, Arizona and the two business parks aggregating 367,000 square feet in Sacramento, California, continued to be classified as property held for disposition as of June 30, 2015.

Subsequent to June 30, 2015, the Company completed the sale of the two business parks located in Sacramento, California, noted above, for net proceeds of $29.3 million.

The Company has a 125,000 square foot building located in Northern Virginia classified as land and building held for development. The Company has entered into a joint venture, in which it will maintain a 95.0% economic interest, with a real estate development company to pursue a ground-up multi-family development of this site. Prior to the property being contributed, all costs related to the pre-development are split evenly between the Company and its joint venture partner. As of June 30, 2015, the Company has received all required entitlements, allowing it to develop a multi-family building up to 450,000 square feet on the property. The property will be contributed to the joint venture upon commencement of construction, which is anticipated to occur in late 2015 or early 2016. The land and capitalized development costs were $20.2 million and $18.4 million at June 30, 2015 and December 31, 2014, respectively. For the six months ended June 30, 2015, the Company capitalized costs of $1.8 million related to this development, of which $531,000 were capitalized interest costs.

Scheduled Lease Expirations: In addition to the 1.8 million square feet, or 6.6%, of space available in our total portfolio as of June 30, 2015, 1,068 leases representing 13.1% of the leased square footage of our total portfolio or 12.1% of annualized rental income are scheduled to expire during the remainder of 2015. Our ability to re-lease available space will depend upon 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.

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Net Operating Income: Rental income, cost of operations and rental income less cost of operations, excluding depreciation and amortization, or net operating income (defined as "NOI" for purposes of the following tables), are summarized for the three and six months ended June 30, 2015 and 2014. NOI is a non-GAAP financial measure. 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 tables below, we have reconciled total NOI to net income, which we consider the most directly comparable financial measure calculated in accordance with GAAP.

In order to provide a meaningful period-to-period comparison, the tables below exclude amortization of the Senior Management Long-Term Equity Incentive Plan ("2014 LTEIP") in cost of operations (for field leadership) and general and administrative expenses (for executive management).

Concentration of Portfolio by Region: The table below reflects the Company's square footage based on regional concentration as of June 30, 2015, excluding assets held for sale or sold. As part of the table below, we have reconciled total NOI to net income (in thousands):

Region	Square Footage	Percent of Square Footage	NOI For The Six Months Ended June 30, 2015	Percent of Total NOI
California				
Northern California	7,245	25.9%	$ 27,972	22.6%
Southern California	3,988	14.2%	19,773	16.0%
Texas				
Northern Texas	3,125	11.2%	9,380	7.6%
Southern Texas	1,963	7.0%	6,575	5.3%
Virginia	4,040	14.5%	26,816	21.7%
Florida	3,866	13.8%	11,889	9.6%

Maryland	2,352	8.4%	15,995	12.9%
Washington	1,390	5.0%	5,244	4.3%
Total	27,969	100.0%	$ 123,644	100.0%

Reconciliation of NOI to net income	
Total NOI	$ 123,644
Other income and (expenses):	
NOI from assets held for sale or sold	1,327
2014 LTEIP amortization:	
Cost of operations	(1,511)
General and administrative	(3,000)
Facility management fees	280
Interest and other income	252
Interest and other expenses	(6,661)
Depreciation and amortization	(53,258)
General and administrative	(3,896)
Gain on sale of real estate facilities	12,487
Net income	$ 69,664

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Concentration of Credit Risk by Industry: The information below depicts the industry concentration of our tenant base as of June 30, 2015, excluding assets held for sale. The Company analyzes this concentration to minimize significant industry exposure risk.

Industry	Percent of Annualized Rental Income
Business services	17.9%
Government	10.4%
Computer hardware, software and related services	10.2%
Warehouse, distribution, transportation and logistics	10.1%
Health services	9.5%
Retail, food, and automotive	6.7%
Engineering and construction	6.6%
Insurance and financial services	4.4%
Home furnishings	2.9%
Electronics	2.8%
Aerospace/defense products and services	2.8%
Communications	2.2%
Educational services	1.6%
Other	11.9%
Total	100.0%

The information below depicts the Company’s top 10 customers by annualized rental income as of June 30, 2015, excluding assets held for sale (in thousands):

Tenants	Square Footage	Annualized Rental Income (1)	Percent of Annualized Rental Income
US Government	847	$ 20,841	5.7%
Kaiser Permanente	199	4,498	1.2%
Lockheed Martin Corporation	168	3,818	1.0%
Keeco, L.L.C.	460	3,331	0.9%

Luminex Corporation	185	3,047	0.8%
Wells Fargo	118	2,209	0.6%
MAXIMUS, Inc.	102	1,993	0.5%
Salient Federal Solutions, Inc.	58	1,911	0.5%
Investorplace Media, LLC	46	1,726	0.5%
Inova Health Care Services	63	1,694	0.5%
Total	2,246	$ 45,068	12.2%

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(1) For leases expiring prior to December 31, 2015, annualized rental income represents income to be received under existing leases from July 1, 2015 through the date of expiration.

Comparative Analysis of the Three and Six Months Ended June 30, 2015 to the Three and Six Months Ended June 30, 2014

Results of Operations: In order to evaluate the performance of the Company's portfolio over comparable periods, management analyzes the operating performance of properties owned and operated throughout both periods (herein referred to as "Same Park"). The Same Park portfolio includes all operating properties owned or acquired prior to January 1, 2013, excluding 390,000 square feet of assets held for sale as of June 30, 2015. Therefore, Same Park rental income and cost of operations amounts exclude such assets. Operating properties that the Company acquired subsequent to January 1, 2013 are referred to as "Non-Same Park." For the three and six months ended June 30, 2015

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and 2014, the Same Park facilities constitute 25.8 million rentable square feet, representing 90.8% of the 28.4 million square feet in the Company's total portfolio as of June 30, 2015.

The following table presents the operating results of the Company's properties for the three and six months ended June 30, 2015 and 2014 in addition to other income and expenses items affecting net income (in thousands, except per square foot data):

	For The Three Months Ended June 30,			For The Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Rental income:						
Same Park (25.8 million rentable square feet)	$ 85,970	$ 83,018	3.6%	$ 171,189	$ 167,039	2.5%
Non-Same Park (2.2 million rentable square feet)	6,000	3,544	69.3%	11,708	7,494	56.2%
Total rental income	91,970	86,562	6.2%	182,897	174,533	4.8%
Cost of operations:						
Same Park	26,585	26,028	2.1%	54,700	54,561	0.3%
Non-Same Park	2,266	1,858	22.0%	4,553	3,485	30.6%
Total cost of operations	28,851	27,886	3.5%	59,253	58,046	2.1%
Net operating income						
Same Park	59,385	56,990	4.2%	116,489	112,478	3.6%
Non-Same Park	3,734	1,686	121.5%	7,155	4,009	78.5%
Total net operating income	63,119	58,676	7.6%	123,644	116,487	6.1%
Other income and (expenses):						
NOI from assets held for sale or sold (1)	551	4,631	(88.1%)	1,327	9,026	(85.3%)
2014 LTEIP amortization:						
Cost of operations	(779)	(856)	(9.0%)	(1,511)	(1,185)	27.5%
General and administrative	(1,642)	(1,518)	8.2%	(3,000)	(2,047)	46.6%
Facility management fees	133	165	(19.4%)	280	331	(15.4%)
Other income and expenses	(3,193)	(3,308)	(3.5%)	(6,409)	(6,622)	(3.2%)
Depreciation and amortization	(27,025)	(28,295)	(4.5%)	(53,258)	(56,736)	(6.1%)
General and administrative	(1,855)	(1,845)	0.5%	(3,896)	(3,803)	2.4%
Gain on sale of real estate facilities	—	—	—	12,487	—	100.0%
Net income	$ 29,309	$ 27,650	6.0%	$ 69,664	$ 55,451	25.6%
Same Park gross margin (2)	69.1%	68.6%	0.7%	68.0%	67.3%	1.0%
Same Park weighted average occupancy	93.1%	92.2%	1.0%	92.9%	92.0%	1.0%
Non-Same Park weighted average occupancy	82.8%	75.9%	9.1%	81.0%	74.7%	8.4%
Same Park annualized realized rent per square foot (3)	$ 14.34	$ 13.98	2.6%	$ 14.31	$ 14.09	1.6%

(1) The Company sold one business park located in Milwaukie, Oregon, on February 13, 2015 and five buildings located in Redmond, Washington, on February 27, 2015. Combined with the business parks in Beaverton, Oregon, and Phoenix, Arizona, sold in 2014 and assets held for sale in Tempe, Arizona, and Sacramento, California, these assets generated rental income of $978,000 and $2.4 million for the three and six months ended June 30, 2015, respectively, compared to $7.4 million and $14.8 million for the three and six months ended June 30, 2014, respectively. Cost of operations for the assets held for sale or sold was $427,000 and $1.0 million for the three and six months ended June 30, 2015, respectively, compared to $2.8 million and $5.7 million for the three and six months ended June 30, 2014, respectively.

(2) Computed by dividing Same Park NOI by Same Park rental income.

(3) Represents the annualized Same Park rental income earned per occupied square foot.

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Supplemental Property Data and Trends: NOI is summarized for the three and six months ended June 30, 2015 and 2014 by region below. See 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 tables summarize the Same Park and Non-Same Park operating results by region for the three and six months ended June 30, 2015 and 2014. In addition, the tables reflect the comparative impact on the overall rental income, cost of operations and NOI from properties that have been acquired since January 1, 2013, and the impact of such is included in Non-Same Park facilities in the tables below. As part of the tables below, we have reconciled total NOI to net income (in thousands):

Three Months Ended June 30, 2015 and 2014:

Region	Rental Income June 30, 2015	Rental Income June 30, 2014	Increase (Decrease)	Cost of Operations June 30, 2015	Cost of Operations June 30, 2014	Increase (Decrease)	NOI June 30, 2015	NOI June 30, 2014	Increase (Decrease)
Same Park									
Northern California	$ 17,171	$ 15,939	7.7%	$ 4,488	$ 4,615	(2.8%)	$ 12,683	$ 11,324	12.0%
Southern California	14,813	13,566	9.2%	4,670	4,487	4.1%	10,143	9,079	11.7%
Northern Texas	4,251	4,533	(6.2%)	1,685	1,647	2.3%	2,566	2,886	(11.1%)
Southern Texas	5,192	4,899	6.0%	1,958	1,747	12.1%	3,234	3,152	2.6%
Virginia	20,369	20,532	(0.8%)	6,472	6,045	7.1%	13,897	14,487	(4.1%)
Florida	8,323	8,493	(2.0%)	2,448	2,501	(2.1%)	5,875	5,992	(2.0%)
Maryland	12,300	12,049	2.1%	3,950	4,077	(3.1%)	8,350	7,972	4.7%
Washington	3,551	3,007	18.1%	914	909	0.6%	2,637	2,098	25.7%
Total Same Park	85,970	83,018	3.6%	26,585	26,028	2.1%	59,385	56,990	4.2%
Non-Same Park									
Northern California	2,435	1,570							