

PS BUSINESS PARKS INC/CA
Form 11-K
June 23, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

Annual Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2016

OR

Transition Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission File Number: 1-10709

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

PS 401(k) PROFIT SHARING PLAN
701 Western Avenue
Glendale, CA 91201-2349

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

PS BUSINESS PARKS, INC.
701 Western Avenue
Glendale, CA 91201-2349

PS 401(k) PROFIT SHARING PLAN

FINANCIAL STATEMENTS

AND SUPPLEMENTAL SCHEDULE

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Administrative Committee

PS 401(k) Profit Sharing Plan

We have audited the accompanying statements of net assets available for benefits of the PS 401(k) Profit Sharing Plan as of December 31, 2016 and 2015, and the related statement of changes in net assets available for benefits for the year ended December 31, 2016. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the PS 401(k) Profit Sharing Plan at December 31, 2016 and 2015, and the changes in its net assets available for benefits for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2016, has been subjected to audit procedures performed in conjunction with the audit of the PS 401(k) Profit Sharing Plan's financial statements. The information in the supplemental schedule is the responsibility of the Plan's management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ Ernst & Young LLP

Los Angeles, California

June 22, 2017

PS 401(k) PROFIT SHARING PLAN

STATEMENTS OF NET ASSETS AVAILABLE

FOR BENEFITS

| | At December 31, | |
|-----------------------------------|-----------------|----------------|
| | 2016 | 2015 |
| ASSETS | | |
| Investments at fair value | \$ 128,579,838 | \$ 122,363,358 |
| Receivables: | | |
| Participant contributions | 98,983 | 124,307 |
| Employer contributions | 240,367 | 232,041 |
| Due from broker | 42,368 | 5,543 |
| Total receivables | 381,718 | 361,891 |
| Total assets | 128,961,556 | 122,725,249 |
| LIABILITIES | | |
| Due to broker | 54,781 | 18,229 |
| Total liabilities | 54,781 | 18,229 |
| Net assets available for benefits | \$ 128,906,775 | \$ 122,707,020 |

See accompanying notes.

PS 401(k) PROFIT SHARING PLAN

STATEMENT OF CHANGES IN NET ASSETS

AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2016

Additions to (Deductions from) Net Assets Attributed to:

Investment income:

| | |
|---|--------------|
| Net appreciation in fair value of investments | \$ 4,293,054 |
| Interest and dividends | 1,890,276 |
| | 6,183,330 |

Contributions:

| | |
|-----------------------|------------|
| Participant | 6,473,189 |
| Participant rollovers | 459,230 |
| Employer | 3,172,523 |
| | 10,104,942 |

| | |
|-------------------------------|--------------|
| Benefits paid to participants | (10,006,197) |
| Administrative expenses | (82,320) |

| | |
|---|----------------|
| Increase in net assets available for benefits | 6,199,755 |
| Net assets available for benefits - beginning of the year | 122,707,020 |
| Net assets available for benefits - end of the year | \$ 128,906,775 |

See accompanying notes.

PS 401(k) PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

1. Description of the Plan

General

The PS 401(k) Profit Sharing Plan (the “Plan”) encompasses Public Storage, PS Business Parks, Inc. and certain of their majority owned subsidiaries (collectively, the “Company”). The following description of the Plan provides only general information. Participants should refer to the Plan document for a more complete description of the Plan’s provisions.

The Plan is a defined contribution plan available for the benefit of all permanent employees of the Company who have completed at least 30 days of service and are at least 21 years of age. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Although it has not expressed the intention to do so, the Company has the right to terminate the Plan subject to ERISA provisions. The Plan allows interim allocations of Company contributions and earnings or losses of trust fund assets among participants.

The Company appoints a committee (the “Plan Administrator”) to administer the Plan. At December 31, 2016, the Plan Administrator is comprised of seven officers of the Company with Wells Fargo Bank acting as Trustee (the “Trustee”). Wells Fargo Bank has custody of the Plan’s investments under a non-discretionary trust agreement with the Plan.

Other significant provisions of the Plan are as follows:

Contributions

Employee contributions to the Plan (voluntary contributions) are deferrals of the employee’s compensation made through a direct reduction of compensation in payroll during the year. During 2016, each eligible participant could elect a pretax contribution rate from 1% to 100% of their compensation, as defined in the Plan document, subject to the maximum annual elective deferral amount set by the Internal Revenue Code (the “Code”). Participants may also contribute rollover amounts representing distributions from other qualified benefit or defined contribution plans.

The Company contributes one dollar (\$1.00) for each dollar deferred by a participant up to three percent (3%) of compensation, as defined and subject to certain limitations as described in the Plan document. The Company also contributes an additional fifty cents (\$0.50) for each dollar that each participant defers in excess of three percent (3%) of compensation up to five percent (5%) of compensation. The Company’s aggregate contributions are limited to four percent (4%) of compensation, as defined and subject to certain limitations as described in the Plan document. Additional amounts, including profit sharing contributions, may be contributed at the discretion of the Company. No such additional contributions were made in 2016.

Vesting

Since January 1, 2005, employee deferrals and the Company’s safe harbor matching contribution are 100% vested and non-forfeitable.

Investment Options

Upon enrollment in the Plan, a participant may direct their contributions and holdings in various investment options.

Prior to December 19, 2005, participants had the option to direct contributions to the Company's securities. Effective December 19, 2005, participants no longer had that option. Existing holdings of

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PS 401(k) PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

the Company's securities on December 19, 2005, were either held or transferred to other Plan investment alternatives at the option of each participant. Participants with individually directed accounts remain able to acquire and dispose of the Company's securities at their discretion. See Note 5 for disclosure of the remaining holdings in the Company's securities.

The Plan's investment options include the Wells Fargo Stable Return Fund N and the WF/BlackRock S&P 500 Index CIT N which are common/collective trust funds. The Wells Fargo Stable Return Fund N seeks to provide a moderate level of stable income without principal volatility, while seeking to maintain adequate liquidity and returns superior to shorter maturity investments. It invests in a variety of investment contracts and instruments issued by selected high-quality insurance companies and financial institutions. Participant-directed redemptions have no restrictions; however, the Plan is required to provide a one-year redemption notice to liquidate its entire share in the fund. The WF/BlackRock S&P 500 Index CIT N is an index fund that invests in the equity securities of companies that comprise the S&P 500 Index (the "Index") and seeks to approximate as closely as practicable the total return, before deduction of fees and expenses, of the Index. The WF/BlackRock S&P 500 Index CIT N has no redemption restrictions. See "Investment Valuation and Income Recognition" in Note 2 below for further information regarding common collective trusts.

The Individually Directed Account is considered a self-directed brokerage account which allows participants access to a broader range of investment choices than that which is offered through the Plan's menu. Participants with Individually Directed Accounts remain able to acquire and dispose of the Company's securities at their discretion. At December 31, 2016, the Individually Directed Accounts were primarily invested in money market funds and common equity securities of publicly-traded companies, including those of the Company.

Distributions from the Plan

Distributions of each participant's vested account balance upon severance or death are made in a single lump sum payment; however, upon severance if the participant's vested account balance exceeds \$5,000, payment may be deferred at the election of the participant until April 1st of the calendar year in which the participant reaches 70 ½ years of age.

Additionally, the Plan provides for hardship distributions (as defined).

Forfeited Accounts

Forfeitures of profit sharing contributions may be used (i) as a non-elective allocation to all eligible Plan participants, (ii) to reduce the Company's safe harbor matching contribution or (iii) to reduce Plan expenses in the current Plan year or within one year following the end of the current Plan year. During 2016, a total of \$2,000 in non-vested amounts was forfeited from prior Plan years, all of which were applied to Plan administrative expenses for eligible Plan participants in 2016. As of December 31, 2016, there were no remaining non-vested forfeited amounts in the Plan.

2. Summary of Significant Accounting Principles

Basis of Accounting

The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting and are in conformity with U.S. generally accepted accounting principles.

PS 401(k) PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Use of Estimates

The preparation of 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 financial statements and accompanying notes. Actual results could differ from those estimates.

Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service (“IRS”) dated April 3, 2012, stating that the Plan is qualified under Section 401(a) of the Code and, therefore, the related trust is exempt from taxation. Subsequent to the issuance of the determination letter, the Plan has been amended and restated. The Plan has received a new determination letter dated February 9, 2016 stating the Plan has retained its tax exempt status. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Administrator has indicated that it will take the necessary steps, if any, to bring the Plan’s operations into compliance with the Code.

U.S. generally accepted accounting principles require Plan management to evaluate uncertain tax positions taken by the Plan. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The Plan Administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions. During 2016, the IRS conducted an audit of the Plan for the plan year 2014. On November 23, 2016, the IRS audit of the Plan for the plan year 2014 was closed out with no issues noted. There are currently no audits for any tax periods in progress.

Investment Valuation and Income Recognition

Plan participants’ investments in Company equity securities, mutual funds, and the self-directed brokerage account investments are recorded at fair value as determined by the quoted market price on the last business day of the plan year. Common collective trusts are recorded at fair value based on the net asset value of the investment reported by the Trustee.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the payment date.

3. Fair Value Measurements

“Accounting Standards Codification 820, Fair Value Measurement (“ASC 820”)” defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as

the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). ASC 820 includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Valuation is based on quoted prices in active markets for identical securities.

Level 2 – Valuation is based upon other significant observable inputs.

Level 3 – Valuation is based upon significant unobservable inputs (i.e., supported by little or

PS 401(k) PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

no market activity). Level 3 inputs include the Company's own assumption about the assumptions that market participants would use in pricing the securities (including assumptions about risk).

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

The following tables set forth by level, within the fair value hierarchy, the Plan's investments carried at fair value as of December 31, 2016 and 2015:

| | Assets at Fair Value as of December 31, 2016 | | | |
|------------------------------------|--|---------|---------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Company common and preferred stock | \$ 20,164,239 | \$ - | \$ - | \$ 20,164,239 |
| Mutual funds | 79,334,200 | - | - | 79,334,200 |
| Self-directed brokerage accounts | 5,901,701 | - | - | 5,901,701 |
| | \$ 105,400,140 | \$ - | \$ - | 105,400,140 |
| Common/collective trust funds: | | | | |
| Wells Fargo Stable Return Fund N | | | | 12,687,122 |
| WF/BlackRock S&P 500 Index CIT N | | | | 10,492,576 |
| Total investments at fair value | | | | \$ 128,579,838 |

| | Assets at Fair Value as of December 31, 2015 | | | |
|------------------------------------|--|---------|---------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Company common and preferred stock | \$ 21,915,371 | \$ - | \$ - | \$ 21,915,371 |
| Mutual funds | 73,767,615 | - | - | 73,767,615 |
| Self-directed brokerage accounts | 5,720,165 | - | - | 5,720,165 |
| | \$ 101,403,151 | \$ - | \$ - | 101,403,151 |
| Common/collective trust funds: | | | | |
| Wells Fargo Stable Return Fund N | | | | 11,811,914 |
| WF/BlackRock S&P 500 Index CIT N | | | | 9,148,293 |
| Total investments at fair value | | | | \$ 122,363,358 |

4. Administration Fees

For the year ended December 31, 2016, the Plan paid to the Trustee a portion of the annual participant fee of \$90.00 per eligible participant and certain transaction related expenses incurred for the administration of the Plan, totaling \$82,320. The Company directly paid for all other Trustee fees and all other expenses related to the Plan.

5. Parties-In-Interest Transactions

The Company is the Plan sponsor as defined by the Plan document. As described more fully under “Investment Options” in Note 1, while participants no longer have the option of directing contributions to the Company’s securities, participants can continue to hold such investments and participants with individually directed accounts remain able to acquire and dispose of the Company’s securities at their discretion. Plan participants held the following shares in the Company’s securities:

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PS 401(k) PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

| | At December 31, 2016 | | At December 31, 2015 | |
|---|----------------------|---------------|----------------------|---------------|
| | Shares | Fair value | Shares | Fair value |
| Public Storage common shares | 83,959 | \$ 18,764,837 | 84,037 | \$ 20,815,965 |
| Public Storage preferred shares | 7,123 | 155,066 | 3,048 | 80,620 |
| PS Business Parks, Inc. common stock | 9,483 | 1,104,959 | 9,364 | 818,695 |
| PS Business Parks, Inc. preferred stock | 5,987 | 139,377 | 7,972 | 200,091 |
| | | \$ 20,164,239 | | \$ 21,915,371 |

At December 31, 2016 and 2015, Plan participants held \$12,687,122 and \$11,811,914, respectively, in the Wells Fargo Stable Return Fund N, a common/collective trust fund that invests in fully benefit-responsive investment contracts and is offered by the Plan's Trustee. At December 31, 2016 and 2015, Plan participants held \$452,847 and \$603,722, respectively, in the Wells Fargo Short Term Investment Fund S, a money market fund offered by the Plan's Trustee. The WF/BlackRock S&P 500 Index CIT N is an index fund offered by the Plan's Trustee that invests in equity securities of companies that comprise the S&P 500 Index. At December 31, 2016 and 2015, Plan participants held \$10,492,576 and \$9,148,293, respectively, in this investment selection.

6.Risks and Uncertainties

The Plan provides for investment in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near or long term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

7.Concentrations

Investments in the Company's securities comprised approximately of 16% and 18% of the Plan's total investments as of December 31, 2016 and 2015, respectively.

SUPPLEMENTAL INFORMATION

SCHEDULE I

PS 401(k) PROFIT SHARING PLAN

Schedule H, Line 4i –

Schedule of Assets (held at end of year)

December 31, 2016

Employer Identification Number: 95-3551121

Plan Number: 001

| (a) (b) | (c) | (e) |
|---|--|---------------|
| Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Current Value |
| * Wells Fargo | Wells Fargo Stable Return Fund N | \$ 12,687,122 |
| * Wells Fargo | Wells Fargo Short Term Investment Fund S | 452,847 |
| * Wells Fargo | WF/BlackRock S&P 500 Index CIT N | 10,492,576 |
| Eagle Funds | Eagle Mid Cap Growth Fund/R5 | 2,429,834 |
| Dodge & Cox Funds | Dodge & Cox International Stock Fund | 3,537,160 |
| American Funds | EuroPacific Growth Fund/R6 | 2,654,789 |
| Fidelity Investments | Fidelity Contrafund | 2,622,175 |
| Fidelity Investments | Fidelity Low Price Stock Fund | 2,770,072 |
| Harbor Funds | Harbor Capital Appreciation I Fund | 12,489,424 |
| The Oakmark Funds | Equity & Income I Fund | 20,107,673 |
| The Oakmark Funds | Select I Fund | 1,101,115 |
| MetWest Funds | Metropolitan West Total Return Bond Fund | 3,720,897 |
| JP Morgan Funds | JP Morgan Value Advantage I Fund | 3,041,107 |

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| | | |
|---------------------------------|---|----------------|
| T. Rowe Price | T. Rowe Price Real Estate Fund | 3,518,930 |
| The Vanguard Group Mutual Funds | Explorer Admiral Fund | 4,994,953 |
| The Vanguard Group Mutual Funds | Short Term Federal Admiral Fund | 2,579,127 |
| The Vanguard Group Mutual Funds | Windsor II Admiral Fund | 7,427,541 |
| The Vanguard Group Mutual Funds | Total Bond Market Index Admiral Fund | 1,448,474 |
| The Vanguard Group Mutual Funds | Mid-Cap Index Admiral Fund | 2,922,873 |
| The Vanguard Group Mutual Funds | Small-Cap Index Admiral Fund | 1,129,570 |
| The Vanguard Group Mutual Funds | Total International Stock Market Admiral Fund | 385,639 |
| * Public Storage | Company common shares | 18,764,837 |
| * Public Storage | Company preferred shares | 155,066 |
| * PS Business Parks, Inc. | Company common stock | 1,104,959 |
| * PS Business Parks, Inc. | Company preferred stock | 139,377 |
| Individually directed accounts | Various investment securities | 5,901,701 |
| Total | | \$ 128,579,838 |

*Indicates a party-in-interest of the Plan.

Note: As all Plan investments are participant directed, column (d) providing certain participant-directed transaction cost information is not applicable and has been omitted.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

PS 401(k)
PROFIT
SHARING
PLAN

Date: June 22, 2017

By: /s/ Natalia Johnson
Natalia Johnson
Chairman, Administrative Committee

EXHIBIT INDEX

| Exhibit | Number | Description |
|---------|--------|---|
| 23 | | Consent of Independent Registered Public Accounting Firm. Filed herewith. |