

Public Storage
Form 10-Q
August 05, 2013

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, 2013

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: 001-33519

PUBLIC STORAGE

(Exact name of registrant as specified in its charter)

Maryland 95-3551121
(State or other jurisdiction of (I.R.S. Employer Identification Number)
incorporation or organization)

701 Western Avenue, Glendale, California 91201-2349
(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 at least 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).

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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 the definitions 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

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Indicate the number of the registrant's outstanding common shares of beneficial interest, as of August 1, 2013:

Common Shares of beneficial interest, \$.10 par value per share – 172,007,072 shares

PUBLIC STORAGE

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BALANCE SHEETS

(Amounts in thousands, except share data)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$ 410,910	\$ 17,239
Real estate facilities, at cost:		
Land	2,867,523	2,863,464
Buildings	8,238,526	8,170,355
	11,106,049	11,033,819
Accumulated depreciation	(3,913,399)	(3,738,130)
	7,192,650	7,295,689
Construction in process	74,472	36,243
	7,267,122	7,331,932
Investments in unconsolidated real estate entities	717,937	735,323
Goodwill and other intangible assets, net	205,228	209,374
Loan receivable from unconsolidated real estate entity	404,526	410,995
Other assets	88,875	88,540
Total assets	\$ 9,094,598	\$ 8,793,403
LIABILITIES AND EQUITY		
Borrowings on bank credit facility	\$ -	\$ 133,000
Notes payable	111,688	335,828
Accrued and other liabilities	218,703	201,711
Total liabilities	330,391	670,539
Commitments and contingencies (Note 12)		
Equity:		
Public Storage shareholders' equity:		
Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 142,500 shares issued (in series) and outstanding, (113,500 at December 31, 2012), at liquidation preference	3,562,500	2,837,500
Common Shares, \$0.10 par value, 650,000,000 shares authorized, 171,705,912 shares issued and outstanding (171,388,286 shares at December 31, 2012)	17,171	17,139
Paid-in capital	5,517,742	5,519,596
Accumulated deficit	(338,785)	(279,474)

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Accumulated other comprehensive loss	(22,522)	(1,005)
Total Public Storage shareholders' equity	8,736,106	8,093,756
Noncontrolling interests	28,101	29,108
Total equity	8,764,207	8,122,864
Total liabilities and equity	\$ 9,094,598	\$ 8,793,403

See accompanying notes.

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PUBLIC STORAGE

INCOME STATEMENTS

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Self-storage facilities	\$ 451,576	\$ 424,060	\$ 891,241	\$ 834,619
Ancillary operations	33,802	31,733	65,037	61,009
	485,378	455,793	956,278	895,628
Expenses:				
Self-storage cost of operations	132,137	133,102	273,130	275,295
Ancillary cost of operations	10,434	9,781	19,830	19,299
Depreciation and amortization	90,937	88,474	181,938	175,298
General and administrative	14,085	12,414	32,338	28,819
	247,593	243,771	507,236	498,711
Operating income	237,785	212,022	449,042	396,917
Interest and other income	5,516	5,540	11,097	11,195
Interest expense	(647)	(5,067)	(4,144)	(10,401)
Equity in earnings of unconsolidated real estate entities	13,101	8,596	24,744	17,711
Foreign currency exchange gain (loss)	5,924	(23,657)	(6,813)	(11,500)
Gain on real estate sales	-	1,263	-	1,263
Income from continuing operations	261,679	198,697	473,926	405,185
Discontinued operations	-	234	-	468
Net income	261,679	198,931	473,926	405,653
Allocation to noncontrolling interests	(1,216)	(788)	(2,240)	(1,658)
Net income allocable to Public Storage shareholders	260,463	198,143	471,686	403,995
Allocation of net income to:				
Preferred shareholders - distributions	(51,907)	(51,910)	(100,497)	(107,005)
Preferred shareholders - redemptions	-	(13,427)	-	(38,327)
Restricted share units	(871)	(463)	(1,568)	(977)
Net income allocable to common shareholders	\$ 207,685	\$ 132,343	\$ 369,621	\$ 257,686

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Net income per common share – basic				
Continuing operations	\$ 1.21	\$ 0.78	\$ 2.15	\$ 1.51
Discontinued operations	-	-	-	-
	1.21	0.78	2.15	1.51
Net income per common share – diluted				
Continuing operations	\$ 1.20	\$ 0.77	\$ 2.14	\$ 1.50
Discontinued operations	-	-	-	-
	1.20	0.77	2.14	1.50
Basic weighted average common shares outstanding	171,625	170,496	171,535	170,402
Diluted weighted average common shares outstanding	172,647	171,560	172,580	171,487
Cash dividends declared per common share	\$ 1.25	\$ 1.10	\$ 2.50	\$ 2.20

See accompanying notes.

PUBLIC STORAGE

STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 261,679	\$ 198,931	\$ 473,926	\$ 405,653
Other comprehensive (loss) income:				
Aggregate foreign currency exchange gain (loss)	4,291	(39,140)	(28,330)	(15,919)
Adjust for foreign currency exchange (gain) loss included in net income	(5,924)	23,657	6,813	11,500
Other comprehensive (loss) income	(1,633)	(15,483)	(21,517)	(4,419)
Total comprehensive income	260,046	183,448	452,409	401,234
Allocation to noncontrolling interests	(1,216)	(788)	(2,240)	(1,658)
Comprehensive income allocable to Public Storage shareholders	\$ 258,830	\$ 182,660	\$ 450,169	\$ 399,576

See accompanying notes.

PUBLIC STORAGE

STATEMENT OF EQUITY

(Amounts in thousands, except share and per share amounts)

(Unaudited)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2012	\$ 2,837,500	\$ 17,139	\$ 5,519,596	\$ (279,474)	\$ (1,005)	\$ 8,093,756	\$ 29,108	\$ 8,122,864
Issuance of 29,000,000 preferred shares (Note 8)	725,000	-	(23,313)	-	-	701,687	-	701,687
Issuance of common shares in connection with share-based compensation (317,626 shares) (Note 10)	-	32	16,905	-	-	16,937	-	16,937
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	5,180	-	-	5,180	-	5,180
Acquisition of noncontrolling interests	-	-	(626)	-	-	(626)	(21)	(647)
Net income	-	-	-	473,926	-	473,926	-	473,926
Net income allocated to noncontrolling	-	-	-	(2,240)	-	(2,240)	2,240	-

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interests								
Distributions to equity holders:								
Preferred shares (Note 8)	-	-	-	(100,497)	-	(100,497)	-	(100,497)
Noncontrolling interests	-	-	-	-	-	-	(3,226)	(3,226)
Common shares and restricted share units (\$2.50 per share)	-	-	-	(430,500)	-	(430,500)	-	(430,500)
Other comprehensive loss (Note 2)	-	-	-	-	(21,517)	(21,517)	-	(21,517)
Balances at June 30, 2013	\$ 3,562,500	\$ 17,171	\$ 5,517,742	\$ (338,785)	\$ (22,522)	\$ 8,736,106	\$ 28,101	\$ 8,764,207

See accompanying notes.

PUBLIC STORAGE

STATEMENTS OF CASH FLOWS

(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 473,926	\$ 405,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on real estate sales, including amounts in discontinued operations	-	(1,263)
Depreciation and amortization, including amounts in discontinued operations	181,938	175,526
Distributions received from unconsolidated real estate entities (less than) in excess of equity in earnings	(2,407)	4,393
Foreign currency exchange loss	6,813	11,500
Other	12,299	9,968
Total adjustments	198,643	200,124
Net cash provided by operating activities	672,569	605,777
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(32,764)	(40,298)
Construction in process	(58,087)	(1,622)
Acquisition of real estate facilities and intangibles (Note 3)	(21,528)	(88,067)
Other	7,615	5,341
Net cash used in investing activities	(104,764)	(124,646)
Cash flows from financing activities:		
Repayments on bank credit facility	(133,000)	-
Repayments on notes payable	(223,590)	(28,788)
Issuance of common shares	16,937	15,568
Issuance of preferred shares	701,687	1,171,525
Redemption of preferred shares	-	(833,321)
Acquisition of noncontrolling interests	(647)	(20,876)
Distributions paid to Public Storage shareholders	(530,997)	(483,437)
Distributions paid to noncontrolling interests	(3,226)	(2,773)
Net cash used in financing activities	(172,836)	(182,102)
Net increase in cash and cash equivalents	394,969	299,029
Net effect of foreign exchange translation on cash and cash equivalents	(1,298)	438
Cash and cash equivalents at the beginning of the period	17,239	139,008
Cash and cash equivalents at the end of the period	\$ 410,910	\$ 438,475

See accompanying notes.

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STATEMENTS OF CASH FLOWS

(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Supplemental schedule of non-cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	\$ 770	\$ (158)
Investments in unconsolidated real estate entities	19,793	4,968
Loan receivable from unconsolidated real estate entity	6,469	11,547
Accumulated other comprehensive loss	(28,330)	(15,919)
Preferred shares called for redemption and reclassified:		
To liabilities	-	415,625
From equity	-	(415,625)
Consolidation of entities previously accounted for under the equity method of accounting:		
Real estate facilities	-	(10,403)
Investments in unconsolidated real estate entities	-	3,072
Intangible assets	-	(949)
Noncontrolling interests	-	8,224

See accompanying notes.

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

1. Description of the Business

Public Storage (referred to herein as “the Company”, “we”, “us”, or “our”), a Maryland real estate investment trust, was organized in 1980. Our principal business activities include the acquisition, development, ownership and operation of self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use.

At June 30, 2013, we have direct and indirect equity interests in 2,081 self-storage facilities (with approximately 133 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name. In Europe, we own one self-storage facility in London, England and we have a 49% interest in Shurgard Europe, which owns 187 self-storage facilities (with approximately 10.0 million net rentable square feet) located in seven Western European countries, all operating under the “Shurgard” name. We also have direct and indirect equity interests in approximately 29.7 million net rentable square feet of commercial space located in 11 states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At June 30, 2013, we have an approximate 41% interest in PSB.

Disclosures of the number and square footage of properties, as well as the number and coverage of tenant reinsurance policies are unaudited and outside the scope of our independent registered public accounting firm’s review of our 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 interim financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) as defined in the Financial Accounting Standards Board Accounting Standards Codification (the “Codification”), including guidance with respect to interim financial information, and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. While they do not include all of the disclosures required by GAAP for complete financial statements, we believe that we have included all adjustments (consisting of normal and recurring adjustments) necessary for a fair presentation. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 due to seasonality and other factors. These interim financial statements should be read together with the audited financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Certain amounts previously reported in our December 31, 2012 and June 30, 2012 financial statements have been reclassified to conform to the June 30, 2013 presentation 1) for discontinued operations, 2) to separately present construction in process, and 3) to reflect credit card fees as part of cost of operations rather than as a reduction to

revenues.

Consolidation and Equity Method of Accounting

We consider entities to be Variable Interest Entities (“VIEs”) when they have insufficient equity to finance their activities without additional subordinated financial support provided by other parties, or where the equity holders as a group do not have a controlling financial interest. We have no investments in any VIEs.

We consolidate all entities that we control (these entities, for the period in which the reference applies, are referred to collectively as the “Subsidiaries”), and we eliminate intercompany transactions and balances. We account for our investments in entities that we have significant influence over, but do not control, using the

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PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

equity method of accounting (these entities, for the periods in which the reference applies, are referred to collectively as the “Unconsolidated Real Estate Entities”). When we obtain control of an Unconsolidated Real Estate Entity, we commence consolidating the entity and record a gain representing the differential between the book value and fair value of our preexisting equity interest. All changes in consolidation status are reflected prospectively.

When we are general partner, we control the partnership unless the third-party limited partners can dissolve the partnership or otherwise remove us as general partner without cause, or if the limited partners have the right to participate in substantive decisions of the partnership.

Collectively, at June 30, 2013, the Company and the Subsidiaries own 2,067 self-storage facilities in the U.S., one self-storage facility in London, England and six commercial facilities in the U.S. At June 30, 2013, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 14 self-storage facilities in the U.S. with 0.8 million net rentable square feet (these limited partnerships, for the periods in which the reference applies, are referred to as the “Other Investments”).

Use of Estimates

The financial statements and accompanying notes reflect our estimates and assumptions. Actual results could differ from those estimates and assumptions.

Income Taxes

We have elected to be treated as a real estate investment trust (“REIT”), as defined in the Internal Revenue Code. As a REIT, we do not incur federal income tax if we distribute 100% of our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) each year, and if we meet certain organizational and operational rules. We believe we will meet these REIT requirements in 2013, and that we have met them for all other periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

Our merchandise and tenant reinsurance operations are subject to corporate income tax and such taxes are included in ancillary cost of operations. We also incur income and other taxes in certain states, which are included in general and administrative expense.

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would be sustained (including the impact of appeals, as applicable), assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of June 30, 2013, we had no tax benefits that were not recognized.

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to develop, construct, renovate and improve properties, including interest and property taxes incurred during the construction period. We expense internal and

external transaction costs associated with acquisitions or dispositions of real estate, as well as repairs and maintenance costs, as incurred. We depreciate buildings and improvements on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

We allocate the net acquisition cost of acquired operating self-storage facilities (consisting of the cash paid to third parties for their interests, the fair value of any existing investment, and the fair value of any

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CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

liabilities assumed) to the underlying land, buildings, identified intangible assets, and remaining noncontrolling interests based upon their respective individual estimated fair values. Any difference between the net acquisition cost and the estimated fair value of the net tangible and intangible assets acquired is recorded as goodwill.

Other Assets

Other assets primarily consist of prepaid expenses, accounts receivable, land held for sale and restricted cash.

Accrued and Other Liabilities

Accrued and other liabilities consist primarily of trade payables, property tax accruals, tenant prepayments of rents, accrued interest payable, accrued payroll, accrued tenant reinsurance losses, casualty losses, and contingent loss accruals which are accrued when probable and estimable. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure.

Cash Equivalents and Marketable Securities

Cash equivalents represent highly liquid financial instruments such as money market funds with daily liquidity or short-term commercial paper or treasury securities maturing within three months of acquisition. Cash and cash equivalents which are restricted from general corporate use are included in other assets. Commercial paper not maturing within three months of acquisition, which we intend and have the capacity to hold until maturity, are included in marketable securities and accounted for using the effective interest method.

Fair Value Accounting

As used herein, the term "fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We prioritize the inputs used in measuring fair value based upon a three-tier hierarchy described in Codification Section 820-10-35.

We believe that, during all periods presented, the carrying values approximate the fair values of our cash and cash equivalents, marketable securities, other assets, and accrued and other liabilities, based upon our evaluation of the underlying characteristics, market data, and short maturity of these financial instruments, which involved considerable judgment. The estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges. The characteristics of these financial instruments, market data, and other comparative metrics utilized in determining these fair values are "Level 2" inputs as the term is defined in Codification Section 820-10-35-47.

We use significant judgment to estimate fair values in recording our business combinations, to evaluate real estate, investments in unconsolidated real estate entities, goodwill, and other intangible assets for impairment, and to determine the fair values of notes payable and receivable. In estimating fair values, we consider significant unobservable inputs such as market prices of land, market capitalization rates and earnings multiples for real estate

facilities, projected levels of earnings, costs of construction, functional depreciation, and market interest rates for debt securities with a similar time to maturity and credit quality, which are “Level 3” inputs as the term is defined in Codification Section 820-10-35-52. We believe that, during all periods presented, the carrying values approximate the fair values of our notes payable and loan receivable.

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June 30, 2013

(Unaudited)

Currency and Credit Risk

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable, loans receivable, and restricted cash. Cash equivalents and marketable securities we invest in are either money market funds with a rating of at least AAA by Standard and Poor's, commercial paper that is rated A1 by Standard and Poor's or deposits with highly rated commercial banks.

At June 30, 2013, due primarily to our investment in and loan receivable from Shurgard Europe, our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

Intangible assets are comprised of goodwill, the "Shurgard" trade name, acquired tenants in place, and leasehold interests in land.

Goodwill totaled \$174.6 million at June 30, 2013 and December 31, 2012. The "Shurgard" trade name which is used by Shurgard Europe pursuant to a fee-based licensing agreement has a book value of \$18.8 million at June 30, 2013 and December 31, 2012. Goodwill and the "Shurgard" trade name have indeterminate lives and are not amortized.

Acquired tenants in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the tenants in place or the land lease expense to each period. At June 30, 2013, these intangibles have a net book value of \$11.8 million (\$15.9 million at December 31, 2012). Accumulated amortization totaled \$26.4 million at June 30, 2013 (\$24.8 million at December 31, 2012), and amortization expense of \$4.7 million and \$4.6 million was recorded in the six months ended June 30, 2013 and 2012, respectively. During the six months ended June 30, 2013, intangibles were increased \$0.6 million in connection with the acquisition of self-storage facilities.

Evaluation of Asset Impairment

We evaluate our real estate, finite-lived intangible assets, investments in unconsolidated real estate entities, and loan receivable from Shurgard Europe for impairment on a quarterly basis. We evaluate indefinite-lived assets (including goodwill) for impairment on an annual basis, or more often if there are indicators of impairment.

In evaluating our real estate assets and finite-lived intangible assets for impairment, if there are indicators of impairment, and we determine that the asset is not recoverable from future undiscounted cash flows, an impairment charge is recorded for any excess of the carrying amount over the asset's estimated fair value. For long-lived assets that we expect to dispose of prior to the end of their estimated useful lives, we record an impairment charge for any excess of the carrying value of the asset over the expected net proceeds from disposal.

Prior to January 1, 2013, we evaluated the "Shurgard" trade name for impairment through a quantitative analysis, and we would record impairment charges to the extent quantitatively estimated fair value was less than the carrying

amount. Beginning January 1, 2013, if we determine, based upon the relevant events and circumstances and other such qualitative factors, that it is more likely than not that the asset is unimpaired, we do not record an impairment charge and no further analysis is performed. Otherwise, we record an impairment charge for any excess of carrying amount over quantitatively assessed fair value. The change made on January 1, 2013, which is not expected to have a material impact upon our net income, resulted from our

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CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

adoption of the Financial Accounting Standards Board's (the "FASB's") Accounting Standards Update No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment."

In evaluating goodwill for impairment, we first evaluate, based upon the relevant events and circumstances and other such qualitative factors, whether the fair value of the reporting unit that the goodwill pertains to is greater than its aggregate carrying amount. If based upon this evaluation it is more likely than not that the fair value of the reporting unit is in excess of its aggregate carrying amount, no impairment charge is recorded and no further analysis is performed. Otherwise, we estimate the goodwill's implied fair value based upon what would be allocated to goodwill if the reporting unit were acquired at estimated fair value in a transaction accounted for as a business combination, and record an impairment charge for any excess of book value over the goodwill's implied fair value.

For our investments in unconsolidated real estate entities, if we determine that a decline in the estimated fair value of the investments below carrying amount is other than temporary, we record an impairment charge for any excess of carrying amount over the estimated fair value.

For our loan receivable from Shurgard Europe, if we determine that it is probable we will be unable to collect all amounts due based on the terms of the loan agreement, we record an impairment charge for any excess of book value over the present value of expected future cash flows.

No impairments were recorded in any of our evaluations for any period presented herein.

Revenue and Expense Recognition

Rental income, which is generally earned pursuant to month-to-month leases for storage space, as well as late charges and administrative fees, are recognized as earned. Promotional discounts reduce rental income over the promotional period. Ancillary revenues and interest and other income are recognized when earned. Equity in earnings of unconsolidated real estate entities represents our pro-rata share of the earnings of the Unconsolidated Real Estate Entities.

We accrue for property tax expense based upon actual amounts billed and, in some circumstances, estimates and historical trends when bills or assessments have not been received from the taxing authorities or such bills and assessments are in dispute. If these estimates are incorrect, the timing and amount of expense recognition could be incorrect. Cost of operations, general and administrative expense, interest expense, as well as television and other advertising expenditures are expensed as incurred.

Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related balance sheet amounts are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. The Euro was translated at exchange rates of approximately 1.301 U.S. Dollars per Euro at June 30, 2013

(1.322 at December 31, 2012), and average exchange rates of 1.305 and 1.284 for the three months ended June 30, 2013 and 2012, respectively, and average exchange rates of 1.313 and 1.297 for the six months ended June 30, 2013 and 2012, respectively. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in equity as a component of accumulated other comprehensive income (loss).

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Comprehensive Income (Loss)

Total comprehensive income (loss) represents net income, adjusted for changes in other comprehensive income (loss) for the applicable period. The aggregate foreign currency exchange gains and losses reflected on our statements of comprehensive income are comprised primarily of foreign currency exchange gains and losses on our investment in, and loan receivable from, Shurgard Europe.

Discontinued Operations

Discontinued operations represent the net income of those facilities that have been disposed of as of June 30, 2013, or which we plan to dispose of within a year.

Net Income per Common Share

Net income is allocated to (i) noncontrolling interests based upon their share of the net income of the Subsidiaries and (ii) preferred shareholders, when a preferred security is called for redemption, to the extent redemption cost exceeds the related original net issuance proceeds (an "EITF D-42 allocation."), with (iii) the remaining net income allocated to each of our equity securities based upon the dividends declared or accumulated during the period, combined with participation rights in undistributed earnings.

Basic net income per share, basic net income from discontinued operations per share, and basic net income from continuing operations per share are computed using the weighted average common shares outstanding. Diluted net income per share, diluted net income from discontinued operations per share, and diluted net income from continuing operations per share are computed using the weighted average common shares outstanding, adjusted for the impact, if dilutive, of stock options outstanding (Note 10).

The following table reflects our calculations of basic and diluted net income per share, basic and diluted net income from discontinued operations per share, and basic and diluted net income from continuing operations per share:

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(Unaudited)

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2013	2012	2013	2012
	(Amounts in thousands)			
Net income allocable to common shareholders from continuing operations and discontinued operations:				
Net income allocable to common shareholders	\$ 207,685	\$ 132,343	\$ 369,621	\$ 257,686
Eliminate: Discontinued operations allocable to common shareholders	-	(234)	-	(468)
Net income from continuing operations allocable to common shareholders	\$ 207,685	\$ 132,109	\$ 369,621	\$ 257,218
Weighted average common shares and equivalents outstanding:				
Basic weighted average common shares outstanding	171,625	170,496	171,535	170,402
Net effect of dilutive stock options - based on treasury stock method	1,022	1,064	1,045	1,085
Diluted weighted average common shares outstanding	172,647	171,560	172,580	171,487

Recent Accounting Pronouncements and Guidance

In January 2013, we adopted ASU No. 2013-02, "Reporting Amounts Classified out of Accumulated Other Comprehensive Income," (ASU No. 2013-02") which requires enhanced disclosures, in one place in our notes to financial statements, about items reclassified out of accumulated other comprehensive income. The adoption of ASU No. 2013-02 had no impact on our financial condition or results of operations.

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3. Real Estate Facilities

Activity in real estate facilities is as follows:

	Six Months Ended June 30, 2013 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	\$ 11,033,819
Capital expenditures to maintain real estate facilities	32,764
Acquisitions	20,943
Newly developed facilities opened for operation	19,858
Impact of foreign exchange rate changes	(1,335)
Ending balance	11,106,049
Accumulated depreciation:	
Beginning balance	(3,738,130)
Depreciation expense	(175,834)
Impact of foreign exchange rate changes	565
Ending balance	(3,913,399)
Construction in process:	
Beginning balance	36,243
Current development	58,087
Newly developed facilities opened for operation	(19,858)
Ending balance	74,472
Total real estate facilities at June 30, 2013	\$ 7,267,122

During the six months ended June 30, 2013, we acquired three operating self-storage facilities from third parties (229,000 net rentable square feet of storage space) for \$21.5 million in cash, with \$20.9 million allocated to real estate facilities and \$0.6 million allocated to intangible assets. We completed expansions to existing self-storage facilities during the six months ended June 30, 2013, adding 293,000 net rentable square feet of self-storage space, at an aggregate cost of \$19.9 million. Construction in process at June 30, 2013, consists of projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 1.4 million net rentable square feet of storage space, for an aggregate estimated cost of approximately \$198 million.

4. Investments in Unconsolidated Real Estate Entities

The following table sets forth our investments in, and equity earnings of, the Unconsolidated Real Estate Entities (amounts in thousands):

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CONDENSED NOTES TO FINANCIAL STATEMENTS

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(Unaudited)

	June 30, 2013	December 31, 2012
Investments in Unconsolidated Real Estate Entities		
PSB	\$ 313,830	\$ 316,078
Shurgard Europe	396,332	411,107
Other Investments	7,775	8,138
Total	\$ 717,937	\$ 735,323

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Equity in Earnings of Unconsolidated Real Estate Entities				
PSB	\$ 4,676	\$ 731	\$ 9,286	\$ 2,626
Shurgard Europe	8,024	7,480	14,691	14,322
Other Investments	401	385	767	763
Total	\$ 13,101	\$ 8,596	\$ 24,744	\$ 17,711

During the six months ended June 30, 2013 and 2012, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$22.3 million and \$22.1 million, respectively.

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 41% common equity interest in PSB as of June 30, 2013 and December 31, 2012, comprised of our ownership of 5,801,606 shares of PSB's common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at June 30, 2013 (\$72.17 per share of PSB common stock), the shares and units we owned had a market value of approximately \$945.9 million.

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The following table sets forth selected financial information of PSB. The amounts represent all of PSB's balances and not our pro-rata share.

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(Unaudited)

	2013	2012
	(Amounts in thousands)	
For the six months ended June 30,		
Total revenue	\$ 176,365	\$ 170,634
Costs of operations	(58,104)	(55,832)
Depreciation and amortization	(53,590)	(54,442)
General and administrative	(4,769)	(4,685)
Other items	(8,437)	(10,475)
Net income	51,465	45,200
Net income allocated to preferred unitholders, preferred shareholders and restricted stock unitholders (a)	(29,035)	(38,849)
Net income allocated to common shareholders and common unitholders	\$ 22,430	\$ 6,351

(a) Includes EITF D-42 allocations to preferred equity holders of \$13.5 million during the six months ended June 30, 2012 related to PSB's redemption of preferred securities.

	June 30, 2013	December 31, 2012
	(Amounts in thousands)	
Total assets (primarily real estate)	\$ 2,126,280	\$ 2,151,817
Debt	340,000	468,102
Other liabilities	65,095	69,454
Equity:		
Preferred stock and units	995,000	885,000
Common equity and units	726,185	729,261

Investment in Shurgard Europe

For all periods presented, we had a 49% equity investment in Shurgard Europe.

Changes in foreign currency exchange rates caused our investment in Shurgard Europe to decrease approximately \$19.8 million and \$5.0 million during the six months ended June 30, 2013 and 2012, respectively.

We classify 49% of interest income and trademark license fees received from Shurgard Europe as equity in earnings of unconsolidated real estate entities and the remaining 51% as interest and other income, as set forth in the following table:

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Six Months Ended
June 30,
2013 2012

(Amounts in
thousands)

Our 49% equity share of:

Shurgard Europe's net income	\$ 5,018	\$ 4,700
Interest income and trademark license fee	9,673	9,622

Total equity in earnings of Shurgard Europe \$ 14,691 \$ 14,322

The following table sets forth selected consolidated financial information of Shurgard Europe based upon all of Shurgard Europe's balances for all periods rather than our pro rata share. Such amounts are based upon our historical acquired book basis.

2013 2012

For the six months ended June 30,

(Amounts in thousands)

Self-storage and ancillary revenues	\$ 120,408	\$ 121,323
Self-storage and ancillary cost of operations	(50,009)	(49,821)
Depreciation and amortization	(29,661)	(31,664)
General and administrative	(5,392)	(6,181)
Interest expense on third party debt	(2,631)	(4,526)
Trademark license fee payable to Public Storage	(1,205)	(1,214)
Interest expense on debt due to Public Storage	(18,536)	(18,423)
Lease termination charge and other	(2,733)	98

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Net income	\$ 10,241	\$ 9,592
Average exchange rates Euro to the U.S. Dollar	1.313	1.297

	June 30, 2013	December 31, 2012
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	\$ 1,365,578	\$ 1,427,037
Total debt to third parties	170,912	216,594
Total debt to Public Storage	404,526	410,995
Other liabilities	73,167	70,076
Equity	716,973	729,372
Exchange rate of Euro to U.S. Dollar	1.301	1.322
Other Investments		

At June 30, 2013, the “Other Investments” include an aggregate common equity ownership of approximately 26% in various limited partnerships that collectively own 14 self-storage facilities.

The following table sets forth certain condensed combined financial information (representing 100% of these entities’ balances, rather than our pro-rata share) with respect to these limited partnerships:

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(Unaudited)

	2013	2012
	(Amounts in thousands)	
For the six months ended June 30,		
Total revenue	\$ 6,882	\$ 6,695
Cost of operations and other expenses	(2,449)	(2,627)
Depreciation and amortization	(978)	(1,062)
Net income	\$ 3,455	\$ 3,006
	June 30,	December 31,
	2013	2012
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	\$ 27,123	\$ 27,710
Total accrued and other liabilities	1,556	1,291
Total Partners' equity	25,567	26,419

5. Loan Receivable from Unconsolidated Real Estate Entity

As of June 30, 2013 and December 31, 2012, we had a Euro-denominated loan receivable from Shurgard Europe with a balance of €311.0 million at both periods (\$404.5 million at June 30, 2013 and \$411.0 million at December 31, 2012), which bears interest at a fixed rate of 9.0% per annum, has no required principal payments until maturity on February 15, 2015, but can be prepaid in part or in full at any time without penalty. Because we expect repayment of this loan in the foreseeable future, foreign exchange rate gains or losses due to changes in exchange rates between the Euro and the U.S. Dollar are recognized on our income statements as "foreign currency exchange (loss) gain." We recorded interest income with respect to this loan (representing 51% of the aggregate interest received; see Note 4) of approximately \$4.7 million and \$9.4 million for each of the three and six month periods ended June 30, 2013 and 2012, respectively.

We believe that the interest rate on the loan to Shurgard Europe approximates the market rate for loans with similar terms, conditions, subordination features, and tenor, and that the fair value of the loan approximates book value. In our evaluation of market rates and fair value, we considered that Shurgard Europe has sufficient operating cash flow, liquidity and collateral, and we have sufficient creditor rights such that credit risk is mitigated. We have received a total of €80.9 million in principal repayments on this loan since its inception on March 31, 2008.

6. Line of Credit and Notes Payable

We have a \$300 million revolving line of credit (the "Credit Facility") that expires on March 21, 2017. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.925% to LIBOR plus 1.850% depending on our credit ratings (LIBOR plus 0.950% at June 30, 2013). In addition, we are required to pay a quarterly facility fee ranging from 0.125% per annum to 0.400% per annum depending on our credit ratings (0.125% per annum at June 30, 2013). See Note 13 regarding an amendment to our Credit Facility. At December 31, 2012, outstanding borrowings under this Credit Facility totaled \$133.0 million, which was repaid in full on January 16, 2013. We had no outstanding borrowings on our Credit Facility at either June 30, 2013 or August 2, 2013. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$15.1 million at June 30, 2013 (\$15.3 million at December 31, 2012). The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at June 30, 2013.

The carrying amounts of our notes payable at June 30, 2013 and December 31, 2012 consist of the following (dollar amounts in thousands):

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(Unaudited)

	June 30, 2013	December 31, 2012
Unsecured Note Payable: 5.9% effective and stated note rate, interest only and payable semi-annually, matured in March 2013	\$ -	\$ 186,460
Secured Notes Payable: 5.0% average effective rate, secured by 53 real estate facilities with a net book value of approximately \$260.1 million at June 30, 2013 and stated note rates between 4.95% and 7.43%, maturing at varying dates between September 2013 and September 2028 (carrying amount includes \$642 of unamortized premium at June 30, 2013 and \$1,192 at December 31, 2012)	111,688	149,368
Total notes payable	\$ 111,688	\$ 335,828

Substantially all of our debt was assumed in connection with business combinations. An initial premium or discount is established for any difference between the stated note balance and estimated fair value of the debt assumed and amortized over the remaining term of the debt using the effective interest method.

At June 30, 2013, approximate principal maturities of our notes payable are as follows (amounts in thousands):

2013 (remainder)	\$ 30,465
2014	35,127
2015	30,009
2016	10,065
2017	1,003
Thereafter	5,019
	\$ 111,688
Weighted average effective rate	5.0%

Cash paid for interest totaled \$6.2 million and \$11.5 million for the six months ended June 30, 2013 and 2012, respectively. Interest capitalized as real estate totaled \$1.5 million in the six months ended June 30, 2013 (no interest was capitalized for the same period in 2012).

7. Noncontrolling Interests

At June 30, 2013, third parties own i) interests in Subsidiaries that own an aggregate of 15 self-storage facilities, and ii) 231,978 partnership units in a Subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder. These interests are referred to collectively hereinafter as the “Noncontrolling Interests.” At June 30, 2013, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the Subsidiary.

During the three and six months ended June 30, 2013, we allocated a total of \$1.2 million and \$2.2 million, respectively, in income, as compared to \$0.8 million and \$1.7 million for the same periods in 2012, respectively; and during the six months ended June 30, 2013 and 2012, we paid distributions of \$3.2 million and \$2.8 million, respectively, to the Noncontrolling Interests. During the six months ended June 30, 2013, we acquired Noncontrolling Interests for \$0.6 million in cash, substantially all of which was allocated to paid-in-capital.

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(Unaudited)

8. Shareholders' Equity

Preferred Shares

At June 30, 2013 and December 31, 2012, we had the following series of Cumulative Preferred Shares ("Preferred Shares") outstanding:

Series	Earliest Redemption Date	Dividend Rate	At June 30, 2013		At December 31, 2012	
			Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
(Dollar amounts in thousands)						
Series O	4/15/2015	6.875%	5,800	\$ 145,000	5,800	\$ 145,000
Series P	10/7/2015	6.500%	5,000	125,000	5,000	125,000
Series Q	4/14/2016	6.500%	15,000	375,000	15,000	375,000
Series R	7/26/2016	6.350%	19,500	487,500	19,500	487,500
Series S	1/12/2017	5.900%	18,400	460,000	18,400	460,000
Series T	3/13/2017	5.750%	18,500	462,500	18,500	462,500
Series U	6/15/2017	5.625%	11,500	287,500	11,500	287,500
Series V	9/20/2017	5.375%	19,800	495,000	19,800	495,000
Series W	1/16/2018	5.200%	20,000	500,000	-	-
Series X	3/13/2018	5.200%	9,000	225,000	-	-
Total Preferred Shares			142,500	\$ 3,562,500	113,500	\$ 2,837,500

The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except under certain conditions and as noted below, holders of the Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our Board of Trustees until the arrearage has been cured. At June 30, 2013, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the Preferred Shares are not redeemable prior to the dates indicated on the table above. On or after the respective dates, each of the series of Preferred Shares is redeemable at our option, in whole or in part, at \$25.00 per depositary share, plus accrued and unpaid dividends. Holders of the Preferred Shares cannot require us to redeem such shares.

Upon issuance of our Preferred Shares, we classify the liquidation value as preferred equity on our balance sheet with any issuance costs recorded as a reduction to paid-in capital.

During the six months ended June 30, 2013, we issued an aggregate 29.0 million depositary shares, each representing 1/1,000 of a share of our Series W and Series X Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$725.0 million in gross proceeds, and we incurred an aggregate of \$23.3 million in issuance costs.

During the six months ended June 30, 2012, we issued an aggregate 48.4 million depositary shares, each representing 1/1,000 of a share of our Series S, Series T and Series U Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$1.2 billion in gross proceeds, and we incurred an aggregate of \$38.5 million in issuance costs.

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In the six months ended June 30, 2012, we redeemed our Series E, Series L, Series M and Series Y Cumulative Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, was \$833.3 million. In the three months ended June 30 2012, we called for redemption our Series C, Series N and Series W Cumulative Preferred Shares; these shares were redeemed in the three months ended September 30, 2012, at par. We recorded \$13.4 million and \$38.3 million in EITF D-42 allocations of income from our common shareholders to the holders of our Preferred Shares in the three and six months ended June 30, 2012, respectively, in connection with these redemptions.

Dividends

Common share dividends including amounts paid to our restricted share unitholders, totaled \$215.4 million (\$1.25 per share) and \$188.3 million (\$1.10 per share), for the three months ended June 30, 2013 and 2012, respectively, and \$430.5 million (\$2.50 per share) and \$376.4 million (\$2.20 per share), for the six months ended June 30, 2013 and 2012, respectively. Preferred share dividends totaled \$51.9 million for each of the three month periods ended June 30, 2013 and 2012, and \$100.5 million and \$107.0 million, for the six months ended June 30, 2013 and 2012, respectively.

9. Related Party Transactions

The Hughes Family owns approximately 15.8% of our common shares outstanding at June 30, 2013.

The Hughes Family has ownership interests in, and operates, approximately 53 self-storage facilities in Canada ("PS Canada") using the "Public Storage" brand name pursuant to a non-exclusive, royalty-free trademark license agreement with the Company. We currently do not own any interests in these facilities. We have a right of first refusal, subject to limitations, to acquire these 53 facilities if the Hughes Family or the underlying corporation agrees to sell them. We reinsure risks relating to loss of goods stored by tenants in these facilities. During each of the six month periods ended June 30, 2013 and 2012, we received \$0.3 million in reinsurance premiums attributed to these facilities. There is no assurance that these premiums will continue, as our rights to reinsure these risks may be qualified.

PS Canada holds approximately a 2.2% interest in Stor-RE, a Subsidiary that provided liability and casualty insurance for PS Canada, the Company, and certain affiliates of the Company for occurrences prior to April 1, 2004.

10. Share-Based Compensation

Under various share-based compensation plans and under terms established by a committee of our Board of Trustees, the Company grants non-qualified options to purchase the Company's common shares, as well as restricted share units ("RSUs"), to trustees, officers, service providers and key employees.

Stock options and RSUs are considered "granted" and "outstanding" as the terms are used herein, when i) the Company and the recipient reach a mutual understanding of the key terms of the award, ii) the award has been authorized, iii)

the recipient is affected by changes in the market price of our stock, and iv) it is probable that any performance and service conditions will be met.

We amortize the grant-date fair value of awards (net of anticipated forfeitures) as compensation expense over the service period. The service period begins on the grant date and ends on the vesting date. For awards that are earned solely upon the passage of time and continued service, the entire cost of the award is amortized on a straight-line basis over the service period. For awards with performance conditions, the

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individual cost of each vesting is amortized separately over each individual service period (the “accelerated attribution” method).

Stock Options

Stock options vest over a three to five-year period, expire ten years after the grant date, and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options.

Outstanding stock option grants are included on a one-for-one basis in our diluted weighted average shares, to the extent dilutive, after applying the treasury stock method (based upon the average common share price during the period) to assumed exercise proceeds and measured but unrecognized compensation.

For the three and six months ended June 30, 2013, we recorded \$0.7 million and \$1.4 million, respectively, in compensation expense related to stock options, as compared to \$0.6 million and \$1.3 million for the same periods in 2012.

During the six months ended June 30, 2013, 235,000 stock options were granted, 228,179 options were exercised and 26,000 options were forfeited. A total of 2,234,331 stock options were outstanding at June 30, 2013 (2,253,510 at December 31, 2012).

Restricted Share Units

RSUs generally vest ratably over a three to eight-year period from the grant date. The grantee receives dividends for each outstanding RSU equal to the per-share dividends received by our common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax deposits made by the Company to satisfy the grantee’s statutory tax liabilities arising from the vesting.

The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares.

During the six months ended June 30, 2013, 193,675 RSUs were granted, 29,794 RSUs were forfeited and 134,565 RSUs vested. This vesting resulted in the issuance of 89,447 common shares. In addition, tax deposits totaling \$6.8 million were made on behalf of employees in exchange for 45,118 common shares withheld upon vesting.

RSUs outstanding at June 30, 2013 and December 31, 2012 were 671,963 and 642,647, respectively. A total of \$6.3 million and \$11.5 million in RSU expense was recorded for the three and six months ended June 30, 2013, respectively, which include approximately \$0.1 million and \$0.9 million, respectively, in employer taxes incurred upon vesting, as compared to \$5.4 million and \$10.0 million for the same periods in 2012, which include approximately \$0.1 million and \$0.9 million, respectively, in employer taxes incurred upon vesting.

See also “net income per common share” in Note 2 for further discussion regarding the impact of RSUs and stock options on our net income per common and income allocated to common shareholders.

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11. Segment Information

Our reportable segments reflect the significant components of our operations that are evaluated separately by our chief operating decision maker (“CODM”) and have discrete financial information available. We organize our segments based primarily upon the nature of the underlying products and services, and whether the operation is located in the U.S. or outside the U.S. In making resource allocation decisions, our CODM considers the net income from continuing operations of each reportable segment included in the tables below, excluding the impact of depreciation and amortization, gains or losses on disposition of real estate facilities, and asset impairment charges. The amounts for each reportable segment included in the tables below are in conformity with GAAP and our significant accounting policies as denoted in Note 2. Ancillary revenues and expenses, interest and other income (other than from Shurgard Europe), interest expense, general and administrative expense and gains and losses on the early repayment of debt are not allocable to any of our reportable segments. Our CODM does not consider the book value of assets in making resource allocation decisions.

Following is the description of and basis for presentation for each of our segments.

Domestic Self-Storage Segment

The Domestic Self-Storage Segment includes the operations of the 2,068 self-storage facilities owned by the Company and the Subsidiaries, as well as our equity share of the Other Investments. For all periods presented, substantially all of our real estate facilities, goodwill and other intangible assets, other assets, and accrued and other liabilities are associated with the Domestic Self-Storage Segment.

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European Self-Storage Segment

The European Self-Storage segment comprises our interest in Shurgard Europe, which has a separate management team reporting directly to our CODM and our joint venture partner. The European Self-Storage segment includes our equity share of Shurgard Europe's operations, the interest and other income received from Shurgard Europe, and foreign currency exchange gains and losses that are attributable to Shurgard Europe. Our balance sheet includes an investment in Shurgard Europe (Note 4) and a loan receivable from Shurgard Europe (Note 5).

Commercial Segment

The Commercial segment comprises our investment in PSB, a publicly-traded REIT with a separate management team that makes its financing, capital allocation and other significant decisions. The Commercial segment also includes our direct interest in certain commercial facilities, substantially all of which are managed by PSB. The Commercial segment presentation includes our equity earnings and interest income from PSB, as well as the revenues and expenses of our commercial facilities. At June 30, 2013, the assets of the Commercial segment are comprised principally of our investment in PSB (Note 4).

Presentation of Segment Information

The following tables reconcile the performance of each segment, in terms of segment income, to our net income (amounts in thousands):

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(Unaudited)

Three months ended June 30, 2013

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
(Amounts in thousands)					
Revenues:					
Self-storage facilities	\$ 451,576	\$ -	\$ -	\$ -	\$ 451,576
Ancillary operations	-	-	3,491	30,311	33,802
	451,576	-	3,491	30,311	485,378
Expenses:					
Self-storage cost of operations	132,137	-	-	-	132,137
Ancillary cost of operations	-	-	1,319	9,115	10,434
Depreciation and amortization	90,249	-	688	-	90,937
General and administrative	-	-	-	14,085	14,085
	222,386	-	2,007	23,200	247,593
Operating income	229,190	-	1,484	7,111	237,785
Interest and other income	-	5,030	-	486	5,516
Interest expense	-	-	-	(647)	(647)
Equity in earnings of unconsolidated real estate entities	401	8,024	4,676	-	13,101
Foreign currency exchange gain	-	5,924	-	-	5,924
Net income	\$ 229,591	\$ 18,978	\$ 6,160	\$ 6,950	\$ 261,679

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(Unaudited)

Three months ended June 30, 2012

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
(Amounts in thousands)					
Revenues:					
Self-storage facilities	\$ 424,060	\$ -	\$ -	\$ -	\$ 424,060
Ancillary operations	-	-	3,638	28,095	31,733
	424,060	-	3,638	28,095	455,793
Expenses:					
Self-storage cost of operations	133,102	-	-	-	133,102
Ancillary cost of operations	-	-	1,216	8,565	9,781
Depreciation and amortization	87,791	-	683	-	88,474
General and administrative	-	-	-	12,414	12,414
	220,893	-	1,899	20,979	243,771
Operating income	203,167	-	1,739	7,116	212,022
Interest and other income	-	4,960	-	580	5,540
Interest expense	-	-	-	(5,067)	(5,067)
Equity in earnings of unconsolidated real estate entities	385	7,480	731	-	8,596
Foreign currency exchange loss	-	(23,657)	-	-	(23,657)
Gain on real estate sales	1,263	-	-	-	1,263
Income (loss) from continuing operations	204,815	(11,217)	2,470	2,629	198,697
Discontinued operations	234	-	-	-	234
Net income (loss)	\$ 205,049	\$ (11,217)	\$ 2,470	\$ 2,629	\$ 198,931

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Six months ended June 30, 2013

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
(Amounts in thousands)					
Revenues:					
Self-storage facilities	\$ 891,241	\$ -	\$ -	\$ -	\$ 891,241
Ancillary operations	-	-	7,024	58,013	65,037
	891,241	-	7,024	58,013	956,278
Expenses:					
Self-storage cost of operations	273,130	-	-	-	273,130
Ancillary cost of operations	-	-	2,629	17,201	19,830
Depreciation and amortization	180,551	-	1,387	-	181,938
General and administrative	-	-	-	32,338	32,338
	453,681	-	4,016	49,539	507,236
Operating income	437,560	-	3,008	8,474	449,042
Interest and other income	-	10,068	-	1,029	11,097
Interest expense	-	-	-	(4,144)	(4,144)
Equity in earnings of unconsolidated real estate entities	767	14,691	9,286	-	24,744
Foreign currency exchange loss	-	(6,813)	-	-	(6,813)
Net income	\$ 438,327	\$ 17,946	\$ 12,294	\$ 5,359	\$ 473,926

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Six months ended June 30, 2012

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
(Amounts in thousands)					
Revenues:					
Self-storage facilities	\$ 834,619	\$ -	\$ -	\$ -	\$ 834,619
Ancillary operations	-	-	7,139	53,870	61,009
	834,619	-	7,139	53,870	895,628
Expenses:					
Self-storage cost of operations	275,295	-	-	-	275,295
Ancillary cost of operations	-	-	2,520	16,779	19,299
Depreciation and amortization	173,915	-	1,383	-	175,298
General and administrative	-	-	-	28,819	28,819
	449,210	-	3,903	45,598	498,711
Operating income	385,409	-	3,236	8,272	396,917
Interest and other income	-	10,015	141	1,039	11,195
Interest expense	-	-	-	(10,401)	(10,401)
Equity in earnings of unconsolidated real estate entities	763	14,322	2,626	-	17,711
Foreign currency exchange loss	-	(11,500)	-	-	(11,500)
Gain on real estate sales	1,263	-	-	-	1,263
Income (loss) from continuing operations	387,435	12,837	6,003	(1,090)	405,185
Discontinued operations	468	-	-	-	468
Net income (loss)	\$ 387,903	\$ 12,837	\$ 6,003	\$ (1,090)	\$ 405,653

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

12. Commitments and Contingencies

Contingent Losses

We are a party to various legal proceedings and subject to various claims and complaints; however, we believe that the likelihood of these contingencies resulting in a material loss to the Company, either individually or in the aggregate, is remote.

Insurance and Loss Exposure

We have historically carried customary property, earthquake, general liability, employee medical insurance, and workers compensation coverage through internationally recognized insurance carriers, subject to customary levels of deductibles. The aggregate limits on these policies of approximately \$75 million for property losses and \$102 million for general liability losses are higher than estimates of maximum probable losses that could occur from individual catastrophic events determined in recent engineering and actuarial studies; however, in case of multiple catastrophic events, these limits could be exhausted.

We reinsure a program that provides insurance to our tenants from an independent third-party insurer. This program covers tenant claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage unit. We reinsure all risks in this program, but purchase insurance from an independent third party insurance company for aggregate claims between \$5.0 million and \$15.0 million per occurrence. We are subject to licensing requirements and regulations in several states. At June 30, 2013, there were approximately 761,000 certificate holders held by our self-storage tenants, representing aggregate coverage of approximately \$1.6 billion.

13. Subsequent Events

During the three months ending September 30, 2013, we expect to complete the acquisition of 29 self-storage facilities (21 in Florida, five in Massachusetts, two in California, and one in Rhode Island), with an aggregate of approximately 2.3 million in net rentable square feet, at a total cost of approximately \$374 million in cash. A total of \$101 million of these acquisitions have been completed as of August 2, 2013, while the remainder is under contract and subject to customary closing conditions.

Effective July 17, 2013, pursuant to an amendment, our Credit Facility will bear annual interest at rates ranging from LIBOR plus an applicable margin ranging from 0.900% to 1.500% (0.900% at July 17, 2013), and the quarterly facility fee will range from 0.125% to 0.300% (0.125% at July 17, 2013), in each case depending upon the ratio of our Total Indebtedness to our Gross Asset Value (as defined in the Credit Facility).

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our financial statements and notes thereto.

Forward Looking Statements: This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements in this document, other than statements of historical fact, are forward-looking statements, which may be identified by the use of the words "expects," "believes," "anticipates," "plans," "would," "should," "may," "estimates" and similar expressions.

These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause our actual results and performance to be materially different from those expressed or implied in the forward-looking statements. Factors and risks that may impact our future results and performance include, but are not limited to, those described in Part I, Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 25, 2013 and in our other filings with the SEC and the following:

- general risks associated with the ownership and operation of real estate, including changes in demand, risks related to development of self-storage facilities, potential liability for environmental contamination, natural disasters and adverse changes in laws and regulations governing property tax, real estate and zoning;
- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our tenants;
- the impact of competition from new and existing self-storage and commercial facilities and other storage alternatives;
- difficulties in our ability to successfully evaluate, finance, integrate into our existing operations, and manage acquired properties, or in our ability to find development projects that meet our risk-adjusted yield expectations or to obtain building permits for self-storage activities in certain municipalities, and to complete these projects timely and on budget;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations, refinancing risk of affiliate loans from us, and local and global economic uncertainty that could adversely affect our earnings and cash flows;
- risks related to our participation in joint ventures;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing environmental, taxes and tenant insurance matters and real estate investment trusts ("REITs"), and risks related to the impact of new laws and regulations;

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- risk of increased tax expense associated either with a possible failure by us to qualify as a REIT, or with challenges to intercompany transactions with our taxable REIT subsidiaries;
- changes in federal tax laws related to the taxation of REITs, which could impact our status as a REIT;
- disruptions or shutdowns of our automated processes, systems and the Internet or breaches of our data security;

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- risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;
- risks related to the concentration of approximately 20% of our facilities in California;
- difficulties in raising capital at a reasonable cost or on other terms acceptable or favorable to us; and
- economic uncertainty due to the impact of terrorism or war.

These forward looking statements speak only as of the date of this report or as of the dates indicated in the statements. All of our forward-looking statements, including those in this report, are qualified in their entirety by this statement. We expressly disclaim any obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, new estimates, or other factors, events or circumstances after the date of these forward looking statements, except as required by law. Given these risks and uncertainties, you should not rely on any forward-looking statements in this report, or which management may make orally or in writing from time to time, as predictions of future events or guarantees of future performance.

Critical Accounting Policies

Our MD&A discusses our financial statements, which have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”). Our financial statements are affected by our judgments, assumptions and estimates. The notes to our June 30, 2013 financial statements, primarily Note 2, summarize our significant accounting policies.

We believe the following are our critical accounting policies, because they have a material impact on the portrayal of our financial condition and results, and they require us to make judgments and estimates about matters that are inherently uncertain.

Income Tax Expense: We have elected to be treated as a real estate investment trust (“REIT”), as defined in the Internal Revenue Code. As a REIT, we do not incur federal income tax on our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

Our evaluation that we have met the REIT requirements could be incorrect, because compliance with the tax rules requires factual determinations, and circumstances we have not identified could result in noncompliance with the tax requirements in current or prior years. For any taxable year that we fail to qualify as a REIT and for which applicable statutory relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income for at least that year and the ensuing four years, we could be subject to penalties and interest, and our net income would be materially different from the amounts estimated in our financial statements.

In addition, our taxable REIT subsidiaries are taxable as regular corporations. To the extent that amounts paid to us by our taxable REIT subsidiaries are determined by the taxing authorities to be in excess of amounts that would be paid under similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess

payments. Such a penalty tax could have a material adverse impact on our net income.

Impairment of Long-Lived Assets: The analysis of impairment of our long-lived assets involves identification of indicators of impairment, projections of future operating cash flows, and estimates of fair values, all of which require significant judgment and subjectivity. Others could come to materially different conclusions. In addition, we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in conclusions, could have a material adverse impact on our net income.

Accruals for Operating Expenses: Certain of our expenses are estimated based upon assumptions regarding past and future trends, such as losses for workers compensation, property taxes, and estimated claims for our tenant reinsurance program. In certain jurisdictions we do not receive property tax bills for the current fiscal year until after our earnings are finalized, and as a result, we must estimate property tax expense based upon anticipated implementation of regulations and trends. If our related estimates and assumptions are incorrect, our operating expenses could be misstated.

Accruals for Contingencies: We may be currently liable for payments, due to legal or business risks, that we have not accrued, either because they are not probable or not estimable, or because we are not currently aware of our liability. We may have to accrue additional amounts for these payments due to the results of further investigation, the litigation process, or otherwise. Such accruals could have a material adverse impact on our net income.

Recording the fair value of acquired real estate facilities: In recording the acquisition of real estate facilities, we estimate the fair value of the land, buildings and intangible assets acquired. Such estimates are based upon many assumptions and judgments, including expected rates of return, land and building replacement costs, as well as future cash flows from the property and the existing tenant base. Others could come to materially different conclusions as to the estimated fair values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, and real estate and intangible assets.

MD&A Overview

Our domestic self-storage facilities generated 93% of our revenues for the six months ended June 30, 2013, and also generated most of our net income and cash flow from operations. A significant portion of management time is devoted to maximizing cash flows from our existing self-storage facilities and associated ancillary activities, as well as seeking additional investments in self-storage facilities.

Most of our facilities compete with other well-managed and well-located competitors, and we are subject to general economic conditions, particularly those that affect the spending habits of consumers and moving trends. We believe that our centralized information networks, national telephone and online reservation system, the brand name "Public Storage," and our economies of scale enable us to meet such challenges effectively.

Since the beginning of 2010 through June 30, 2013, we have acquired an aggregate of 80 self-storage facilities from third parties for approximately \$567 million. During the three months ending September 30, 2013, we expect to complete the acquisition of 29 self-storage facilities (21 in Florida, five in Massachusetts, two in California, and one in Rhode Island), with an aggregate of approximately 2.3 million in net rentable square feet, at a total cost of approximately \$374 million in cash. A total of \$101 million of these acquisitions have been completed as of August 2, 2013, while the remainder is under contract and subject to customary closing conditions. We expect to continue to seek to acquire additional self-storage facilities from third parties. There is significant competition to acquire existing facilities and there can be no assurance that we will be able to acquire additional facilities at prices we will find attractive.

At June 30, 2013, we had a development pipeline of projects to expand existing self-storage facilities and develop new self-storage facilities, which will add approximately 1.4 million net rentable square feet of self-storage space. The aggregate cost of these projects is estimated at \$198 million, of which \$74 million had been incurred at June 30, 2013, and the remaining costs are expected to be incurred in the second half of 2013 and in 2014. Some of these projects are subject to significant contingencies. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding available sites for building that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We also have equity investments in Shurgard Europe and PS Business Parks, Inc. (“PSB”). While we have no current plans to change our equity investments in these entities, it is possible that we may invest further in these entities in the future.

We believe that we are not dependent upon raising capital to fund our ongoing operations or meet our obligations. However, we believe that access to capital is important to growing our asset base. During the year ended December 31, 2012, we issued approximately \$1.7 billion of preferred securities. During January and March 2013, we issued \$725.0 million of preferred securities at a coupon rate of 5.2%, representing historically low rates. We believe that the current market coupon rates for our preferred securities are higher at approximately 6%. If long-term interest rates increase in the future, it is likely that market coupon rates for our preferred securities will also increase.

Results of Operations

Operating results for the Three Months Ended June 30, 2013 and 2012

For the three months ended June 30, 2013, net income allocable to our common shareholders was \$207.7 million or \$1.20 per diluted common share, compared to \$132.3 million or \$0.77 per diluted common share for the same period in 2012, representing an increase of \$75.4 million or \$0.43 per diluted common share. This increase is due primarily to (i) a \$29.6 million increase from foreign currency exchange gains and losses incurred primarily in translating the value of our Euro-denominated loan receivable from Shurgard Europe into U.S. Dollars, (ii) a \$28.5 million increase in self-storage net operating income, and (iii) a \$16.8 million increase from reduced allocations of net income to preferred shareholders due to the application of EITF D-42 to our, and our equity share of PSB's, redemptions of preferred securities.

Operating results for the Six Months Ended June 30, 2013 and 2012

For the six months ended June 30, 2013, net income allocable to our common shareholders was \$369.6 million or \$2.14 per diluted common share, compared to \$257.7 million or \$1.50 per diluted common share for the same period in 2012, representing an increase of \$111.9 million or \$0.64 per diluted common share. This increase is due primarily to a \$58.8 million increase in self-storage net operating income, combined with a \$43.9 million increase from reduced allocations of net income to preferred shareholders due to the application of EITF D-42 to our, and our equity share of PSB's, redemptions of preferred securities.

Funds from Operations and Core Funds from Operations

Funds from Operations ("FFO") is a non-GAAP term defined by the National Association of Real Estate Investment Trusts, and generally represents net income before depreciation, gains and losses, and impairment charges with respect to real estate assets. We present FFO and FFO per share because we consider FFO to be an important measure of the performance of real estate companies, as do many analysts in evaluating our Company. We believe that FFO is a helpful measure of a REIT's performance since FFO excludes depreciation, which is included in computing net income and assumes the value of real estate diminishes predictably over time. We believe that real estate values fluctuate due to market conditions and in response to inflation. FFO computations do not consider scheduled principal payments on debt, capital improvements, distributions and other obligations of the Company. FFO and FFO per share is not a substitute for our cash flow or net income per share as a measure of our liquidity or operating performance or our ability to pay dividends. Because other REITs may not compute FFO in the same manner, FFO may not be comparable among REITs.

For the three months ended June 30, 2013, FFO was \$1.83 per diluted common share, as compared to \$1.38 for the same period in 2012, representing an increase of \$0.45 per diluted common share.

For the six months ended June 30, 2013, FFO was \$3.40 per diluted common share, as compared to \$2.73 for the same period in 2012, representing an increase of \$0.67 per diluted common share.

The following table reconciles from our net income to FFO and FFO per diluted common share:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 261,679	\$ 198,931	\$ 473,926	\$ 405,653
Adjust for amounts not included in FFO:				
Depreciation and amortization, including discontinued operations	90,937	88,588	181,938	175,526
Depreciation from unconsolidated real estate investments	18,158	18,823	37,061	38,564
Gain on real estate sales	-	(1,263)	-	(1,263)
FFO allocable to equity holders	370,774	305,079	692,925	618,480
Less allocation of FFO to:				
Noncontrolling equity interests	(1,770)	(1,502)	(3,401)	(3,220)
Preferred shareholders - distributions	(51,907)	(51,910)	(100,497)	(107,005)
Preferred shareholders - redemptions	-	(13,427)	-	(38,327)
Restricted share unitholders	(1,296)	(869)	(2,401)	(1,792)
FFO allocable to common shares	\$ 315,801	\$ 237,371	\$ 586,626	\$ 468,136
Diluted weighted average common shares	172,647	171,560	172,580	171,487
FFO per share	\$ 1.83	\$ 1.38	\$ 3.40	\$ 2.73

In addition to FFO, we often discuss “Core FFO” per share which is also a non-GAAP measure that represents FFO per share, adjusted to exclude the impact of (i) foreign currency exchange gains and losses, representing a gain of \$5.9 million and a loss of \$6.8 million for the three and six months ended June 30, 2013, respectively (losses of \$23.7 million and \$11.5 million for the same periods in 2012), (ii) the impact of EITF D-42, including our equity share from PSB, representing charges totaling \$16.8 million and \$43.9 million for the three and six months ended June 30, 2012, respectively (none for the same periods in 2013), and (iii) our \$1.4 million equity share of charges incurred by Shurgard Europe in closing a facility during the six months ended June 30, 2013. We believe Core FFO is a helpful measure in understanding our ongoing earnings. We also believe that the analyst community, likewise, reviews our Core FFO and Core FFO per share (or similar measures using different terminology). Core FFO is not a substitute for net income, earnings per share or cash flow from operations. Because other REITs may not compute Core FFO in the same manner as we do, may not use the same terminology, or may not present such a measure, Core FFO may not be comparable among REITs.

The following table reconciles from FFO per share to Core FFO per share:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Percentage Change	2013	2012	Percentage Change
FFO per share	\$ 1.83	\$ 1.38	32.6%	\$ 3.40	\$ 2.73	24.5%
Eliminate the per share impact of items excluded						

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from Core FFO:

Foreign currency exchange (gain) loss	(0.03)	0.14		0.04	0.07	
Application of EITF D-42	-	0.10		-	0.26	
Shurgard Europe's facility closure charge	-	-		0.01	-	
Core FFO per share	\$ 1.80	\$ 1.62	11.1%	\$ 3.45	\$ 3.06	12.7%

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Real Estate Operations

Self-Storage Operations: Our self-storage operations represent 93% of our revenues for the six months ended June 30, 2013. Our self-storage operations are analyzed in two groups: (i) the Same Store Facilities, representing the facilities that we have owned and operated on a stabilized basis since January 1, 2011, and (ii) all other facilities, which are newly acquired, newly developed, or recently expanded facilities (the “Non Same Store Facilities”).

Self-Storage Operations
Summary

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Percentage Change	2013	2012	Percentage Change

(Dollar amounts in thousands)

Revenues:						
Same Store Facilities	\$ 420,146	\$ 399,725	5.1%	\$ 829,750	\$ 788,224	5.3%
Non Same Store Facilities	31,430	24,335	29.2%	61,491	46,395	32.5%
Total rental income	451,576	424,060	6.5%	891,241	834,619	6.8%
Cost of operations:						
Same Store Facilities	122,587	125,126	(2.0)%	253,945	259,537	(2.2)%
Non Same Store Facilities	9,550	7,976	19.7%	19,185	15,758	21.7%
Total cost of operations	132,137	133,102	(0.7)%	273,130	275,295	(0.8)%
Net operating income (a):						
Same Store Facilities	297,559	274,599	8.4%	575,805	528,687	8.9%
Non Same Store Facilities	21,880	16,359	33.7%	42,306	30,637	38.1%
Total net operating income	319,439	290,958	9.8%	618,111	559,324	10.5%
Depreciation and amortization expense:						
Same Store Facilities	(76,563)	(81,273)	(5.8)%	(153,461)	(158,184)	(3.0)%
Non Same Store Facilities	(13,686)	(6,518)	110.0%	(27,090)	(15,731)	72.2%
Total depreciation and amortization expense	(90,249)	(87,791)	2.8%	(180,551)	(173,915)	3.8%
Total net income	\$ 229,190	\$ 203,167	12.8%	\$ 437,560	\$ 385,409	13.5%

Number of facilities at period end:

Same Store Facilities	1,949	1,949	-
Non Same Store Facilities	119	102	16.7%
Net rentable square footage at period end (in thousands):			
Same Store Facilities	122,823	122,823	-
Non Same Store Facilities	9,336	7,754	20.4%

(a) See “Net Operating Income” below for further information regarding this non-GAAP measure.

Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated on a stabilized basis since January 1, 2011 and therefore provide meaningful comparisons for 2012 and 2013. The following table summarizes the historical operating results of these 1,949 facilities (122.8 million net rentable square feet) that represent approximately 93% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at June 30, 2013.

Selected Operating Data for the Same Store Facilities (1,949 facilities)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Percentage Change	2013	2012	Percentage Change
(Dollar amounts in thousands, except weighted average amounts)						
Revenues:						
Rental income	\$ 399,803	\$ 379,957	5.2%	\$ 788,910	\$ 748,638	5.4%
Late charges and administrative fees	20,343	19,768	2.9%	40,840	39,586	3.2%
Total revenues (a)	420,146	399,725	5.1%	829,750	788,224	5.3%
Cost of operations:						
Property taxes	44,031	42,051	4.7%	88,789	85,193	4.2%
On-site property manager payroll	25,508	24,448	4.3%	51,224	50,479	1.5%
Supervisory payroll	8,679	8,547	1.5%	17,785	17,537	1.4%
Repairs and maintenance	9,086	10,443	(13.0)%	19,910	22,678	(12.2)%
Utilities	8,558	8,301	3.1%	17,817	17,748	0.4%
Advertising and selling expense	6,412	10,586	(39.4)%	13,865	21,117	(34.3)%
Other direct property costs	12,439	12,541	(0.8)%	25,040	24,795	1.0%
Allocated overhead	7,874	8,209	(4.1)%	19,515	19,990	(2.4)%
Total cost of operations (a)	122,587	125,126	(2.0)%	253,945	259,537	(2.2)%
Net operating income (b)	297,559	274,599	8.4%	575,805	528,687	8.9%
Depreciation and amortization expense	(76,563)	(81,273)	(5.8)%	(153,461)	(158,184)	(3.0)%
Net income	\$ 220,996	\$ 193,326	14.3%	\$ 422,344	\$ 370,503	14.0%
Gross margin (before depreciation and amortization)	70.8%	68.7%	3.1%	69.4%	67.1%	3.4%
Weighted average for the period:						
Square foot occupancy (c)	94.0%	92.4%	1.7%	93.0%	91.3%	1.9%
Realized annual rental income per:						
Occupied square foot (d)	\$ 13.85	\$ 13.39	3.4%	\$ 13.81	\$ 13.35	3.4%
Available square foot ("REVPAF") (d)	\$ 13.02	\$ 12.37	5.3%	\$ 12.85	\$ 12.19	5.4%
Weighted average at June 30:						
Square foot occupancy				94.9%	93.1%	1.9%

Annual contract rent per occupied square foot (e)	\$ 14.59	\$ 14.28	2.2%
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- (a) Revenues and cost of operations do not include ancillary revenues and expenses generated at the facilities with respect to tenant reinsurance and retail sales.
- (b) See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our operating income in our income statements for the three and six months ended June 30, 2013 and 2012.
- (c) Square foot occupancies represent weighted average occupancy levels over the entire period.

- (d) Realized annual rent per occupied square foot is computed by dividing annualized rental income, before late charges and administrative fees, by the weighted average occupied square feet for the period. Realized annual rent per available square foot (“REVPAF”) is computed by dividing annualized rental income, before late charges and administrative fees, by the total available net rentable square feet for the period. These measures exclude late charges and administrative fees in order to provide a better measure of our ongoing level of revenue. Late charges are dependent upon the level of delinquency, and administrative fees are dependent upon the level of move-ins. In addition, the rates charged for late charges and administrative fees can vary independently from rental rates. These measures take into consideration promotional discounts, which reduce rental income.
- (e) Contract rent represents the applicable contractual monthly rent charged to our tenants, excluding the impact of promotional discounts, late charges, and administrative fees.

Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 5.1% in the three months ended June 30, 2013 as compared to the same period in 2012 due to a 1.7% increase in average occupancy and a 3.4% increase in realized rent per occupied square foot. Revenues generated by our Same Store Facilities increased by 5.3% in the six months ended June 30, 2013 as compared to the same period in 2012 due to a 1.9% increase in average occupancy and a 3.4% increase in realized rent per occupied square foot. The increase in realized rent per occupied square foot in both periods was due primarily to rent increases for tenants that have been renting with us longer than one year, and to a lesser extent, a reduction in promotional discounts given to new tenants.

Same Store average occupancy levels were 2.0% higher on a year-over-year basis as we began 2013. This positive spread stayed consistent throughout most of the three and six months ended June 30, 2013, as compared to the same periods last year. We expect the year-over-year occupancy spread to narrow during the balance of 2013, as comparisons become more difficult.

Our future rental growth will be dependent upon many factors for each market that we operate in, including demand for self-storage space, the level of competitor supply of self-storage space, our ability to increase rental rates to new and existing tenants, the level of promotional activities required, and the average length of stay of our tenants.

We believe that high occupancies maximize our revenue. We seek to maintain an average occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to attract new tenants as well as adjusting our marketing efforts on both television and the Internet in order to generate sufficient move-in volume to replace tenants that vacate. Demand fluctuates due to various local and regional factors, including the overall economy. Demand is higher in the summer months than in the winter months and, as a result, rental rates charged to new tenants are typically higher in the summer months than in the winter months.

During the three months ended June 30, 2013 and 2012, the average annualized contractual rates per occupied square foot for tenants that moved in were \$12.78 and \$12.74, respectively, and the average annualized contractual rents per occupied square foot for tenants that vacated were \$13.43 and \$13.38, respectively. During the six months ended June 30, 2013 and 2012, the average annualized contractual rates per occupied square foot for tenants that moved in were \$12.65 and \$12.64, respectively, and the average annualized contractual rents per occupied square foot for tenants that vacated were \$13.38 and \$13.40, respectively. Although rental rates for new tenants moving in were relatively flat in each of the three and six months ended June 30, 2013, as compared to last year, we were able to reduce the level of promotional discounts given. Promotional discounts given totaled \$19.4 million and \$38.3 million for the three and six months ended June 30, 2013, respectively, as compared to \$21.9 million and \$44.3 million for comparable periods in 2012.

Increasing rental rates to existing tenants, generally on an annual basis, is a key component of our revenue growth. We determine the level of rental increases based upon our expectations regarding the impact of existing

tenant rate increases on incremental move-outs. The level of revenue growth in the remainder of 2013 resulting from rate increases to existing tenants will depend upon the level of rent increases and the resulting level of incremental move-outs.

We believe that the current trends in move-in, move-out, and in place contractual rents are consistent with our expectation of continued revenue growth in the remainder of 2013. However, such trends, when viewed in the short-run, are volatile and not necessarily predictive of our revenues going forward because they are subject to many short-term factors. Such factors include initial move-in rates, seasonal factors, the unit size and geographical mix of the specific tenants moving in or moving out, the length of stay of the tenants moving in or moving out, changes in our pricing strategies, and the degree and timing of rate increases previously passed to existing tenants.

Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) decreased 2.0% and 2.2% in the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. The decrease was due primarily to reductions in repairs and maintenance and advertising and selling expense, offset partially by increases in property tax expense.

Property tax expense increased 4.7% and 4.2% in the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012, due primarily to higher assessed values. We expect property tax growth of approximately 5% in the remainder of 2013 as compared to the same periods in 2012.

On-site property manager payroll expense increased 4.3% and 1.5% in the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. The increases are due primarily to increases in claims incurred for employee health plans, combined with higher workers compensation insurance expense. We expect moderate increases in on-site property manager payroll expense for the remainder of 2013 as compared to the same periods in 2012.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 1.5% and 1.4% in the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012 due principally to increased salaries and incentives. During the remainder of 2013, we expect moderate growth in supervisory payroll as compared to the same periods in 2012.

Repairs and maintenance expense decreased 13.0% and 12.2% in the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. Repair and maintenance costs include snow removal expense, which is incurred primarily in the first and fourth quarters of the year. Snow removal costs increased \$1.5 million during the six months ended June 30, 2013 as compared to the same period in 2012, due to higher snowfall. Excluding snow removal costs, repairs and maintenance decreased 20.8% in the six months ended June 30, 2013 as compared to the same period in 2012.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs as well as when repair work can be accomplished, inflation in material and labor costs, and random events. We expect repairs and maintenance expense (excluding snow removal expense which totaled \$0.4 million in the three months ended December 31, 2012) to be flat in the remainder of 2013 as compared to the same periods in 2012.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expenses increased 3.1% and 0.4% in the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012, due primarily to increased usage. It is difficult to estimate future utility cost levels, because weather, temperature, and energy prices are volatile and not predictable.

Advertising and selling expense is comprised principally of Internet advertising, media advertising, and the operating costs of our telephone reservation center. These costs declined 39.4% and 34.3% in the three and six months ended June 30 2013, respectively, as compared to the same periods in 2012, due primarily to the phase-out of our yellow page advertising program as of December 31, 2012, as well as reduced television advertising and Internet search costs as a result of high occupancies. We expect continued declines in advertising and selling

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expense in the remainder of 2013 as compared to the same periods in 2012, however, at a much more moderate level of decline than experienced during the first half of 2013.

Other direct property costs include administrative expenses incurred at the self-storage facilities, such as property insurance, business license costs, bank charges related to processing the properties' cash receipts, credit card fees, and the cost of operating each property's rental office including supplies and telephone data communication lines. These costs decreased 0.8% and increased 1.0% in the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. We expect moderate increases in other direct property costs in the remainder of 2013 as compared to the same periods in 2012.

Allocated overhead represents administrative expenses for shared general corporate functions, which are allocated to self-storage property operations to the extent their efforts are devoted to self-storage operations. Such functions include data processing, human resources, operational accounting and finance, marketing, and costs of senior executives (other than the Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead decreased 4.1% and 2.4% in the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. We expect inflationary growth in allocated overhead in the remainder of 2013 as compared to the same periods in 2012.

The following table summarizes selected quarterly financial data with respect to the Same Store Facilities:

For the Quarter Ended

	March 31	June 30	September 30	December 31	Entire Year
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(Amounts in thousands, except for per square foot amount)

Total revenues:

2013	\$ 409,604	\$ 420,146			
2012	\$ 388,499	\$ 399,725	\$ 418,085	\$ 410,489	\$ 1,616,798

Total cost of operations:

2013	\$ 131,358	\$ 122,587			
2012	\$ 134,411	\$ 125,126	\$ 122,987	\$ 102,936	\$ 485,460

Property taxes:

2013	\$ 44,758	\$ 44,031			
2012	\$ 43,142	\$ 42,051	\$ 40,703	\$ 26,295	\$ 152,191

Repairs and maintenance:

2013	\$ 10,824	\$ 9,086			
2012	\$ 12,235	\$ 10,443	\$ 8,500	\$ 8,901	\$ 40,079

Advertising and selling
expense:

2013	\$ 7,453	\$ 6,412			
2012	\$ 10,531	\$ 10,586	\$ 10,216	\$ 7,538	\$ 38,871

REVPAF:

2013	\$ 12.67	\$ 13.02			
2012	\$ 12.01	\$ 12.37	\$ 12.93	\$ 12.73	\$ 12.51

Weighted average realized annual rent per occupied square foot:

2013	\$ 13.79	\$ 13.85			
2012	\$ 13.30	\$ 13.39	\$ 13.90	\$ 13.83	\$ 13.61

Weighted average occupancy levels for
the period:

2013	91.9%	94.0%			
2012	90.3%	92.4%	93.0%	92.1%	91.9%

Analysis of Market Trends

The following table sets forth selected market trends in our Same Store Facilities:

Same Store Facilities Operating Trends by Market

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
(Amounts in thousands)						
Revenues:						
Los Angeles (177 facilities)	\$ 57,545	\$ 54,871	4.9%	\$ 113,913	\$ 108,324	5.2%
San Francisco (126 facilities)	35,780	34,016	5.2%	70,601	66,877	5.6%
New York (78 facilities)	27,566	25,718	7.2%	54,702	50,756	7.8%
Chicago (125 facilities)	26,235	25,048	4.7%	51,609	49,363	4.5%
Washington DC (72 facilities)	20,278	19,673	3.1%	40,063	38,826	3.2%
Seattle-Tacoma (85 facilities)	20,268	19,143	5.9%	39,817	37,540	6.1%
Miami (59 facilities)	17,242	16,551	4.2%	34,193	32,751	4.4%
Dallas-Ft. Worth (99 facilities)	16,728	15,830	5.7%	33,022	31,310	5.5%
Houston (80 facilities)	15,199	14,177	7.2%	30,063	27,972	7.5%
Atlanta (89 facilities)	14,613	14,066	3.9%	28,980	28,002	3.5%
Philadelphia (55 facilities)	11,052	10,788	2.4%	21,828	21,410	2.0%
Denver (47 facilities)	9,834	9,164	7.3%	19,174	17,784	7.8%
Minneapolis-St. Paul (41 facilities)	8,441	7,750	8.9%	16,341	15,100	8.2%
Portland (41 facilities)	7,430	7,107	4.5%	14,663	13,917	5.4%
Orlando-Daytona (45 facilities)	7,184	6,902	4.1%	14,292	13,681	4.5%
All other markets (730 facilities)	124,751	118,921	4.9%	246,489	234,611	5.1%
Total revenues	\$ 420,146	\$ 399,725	5.1%	\$ 829,750	\$ 788,224	5.3%
Net operating income:						
Los Angeles	\$ 45,750	\$ 42,527	7.6%	\$ 89,386	\$ 82,733	8.0%
San Francisco	27,810	26,100	6.6%	54,342	50,360	7.9%
New York	19,347	16,912	14.4%	36,654	31,678	15.7%
Chicago	14,886	13,782	8.0%	27,577	25,477	8.2%
Washington DC	15,352	14,741	4.1%	29,803	28,613	4.2%
Seattle-Tacoma	15,383	14,066	9.4%	29,738	27,076	9.8%
Miami	11,864	11,319	4.8%	23,069	21,630	6.7%
Dallas-Ft. Worth	10,860	9,965	9.0%	21,271	19,479	9.2%
Houston	10,161	9,014	12.7%	19,958	17,503	14.0%
Atlanta	10,070	9,359	7.6%	19,767	18,182	8.7%
Philadelphia	7,523	7,394	1.7%	14,420	14,155	1.9%
Denver	7,016	6,391	9.8%	13,434	12,082	11.2%
Minneapolis-St. Paul	5,518	4,828	14.3%	10,144	8,964	13.2%

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Portland	5,514	5,150	7.1%	10,665	9,711	9.8%
Orlando-Daytona	4,608	4,421	4.2%	9,127	8,589	6.3%
All other markets	85,897	78,630	9.2%	166,450	152,455	9.2%
Total net operating income	\$ 297,559	\$ 274,599	8.4%	\$ 575,805	\$ 528,687	8.9%

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Same Store Facilities Operating Trends by Market
(Continued)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Weighted average square foot occupancy:						
Los Angeles	94.2%	92.9%	1.4%	93.7%	92.4%	1.4%
San Francisco	95.0%	93.7%	1.4%	94.2%	93.0%	1.3%
New York	95.4%	92.7%	2.9%	94.6%	92.0%	2.8%
Chicago	95.0%	93.1%	2.0%	93.4%	92.0%	1.5%
Washington DC	94.4%	93.2%	1.3%	92.9%	91.8%	1.2%
Seattle-Tacoma	94.0%	91.6%	2.6%	92.6%	90.6%	2.2%
Miami	93.7%	92.3%	1.5%	93.3%	92.1%	1.3%
Dallas-Ft. Worth	93.8%	92.1%	1.8%	92.8%	91.0%	2.0%
Houston	93.7%	91.7%	2.2%	93.0%	90.7%	2.5%
Atlanta	92.2%	90.4%	2.0%	91.0%	89.7%	1.4%
Philadelphia	94.0%	92.1%	2.1%	92.5%	91.4%	1.2%
Denver	96.2%	95.6%	0.6%	94.8%	93.2%	1.7%
Minneapolis-St. Paul	95.7%	94.0%	1.8%	93.0%	90.8%	2.4%
Portland	94.8%	93.4%	1.5%	93.8%	91.9%	2.1%
Orlando-Daytona	93.3%	91.7%	1.7%	92.8%	90.8%	2.2%
All other markets	93.6%	92.0%	1.7%	92.5%	90.8%	1.9%
Total weighted average occupancy	94.0%	92.4%	1.7%	93.0%	91.3%	1.9%
Realized annual rent per occupied square foot:						
Los Angeles	\$ 19.76	\$ 19.14	3.2%	\$ 19.64	\$ 18.98	3.5%
San Francisco	19.65	18.93	3.8%	19.54	18.74	4.3%
New York	21.44	20.54	4.4%	21.43	20.39	5.1%
Chicago	13.37	12.98	3.0%	13.38	12.95	3.3%
Washington DC	19.90	19.51	2.0%			