Public Storage
Form 10-Q
November 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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 (State or other jurisdiction of incorporation or organization)	95-3551121 (I.R.S. Employer Identification Number)
701 Western Avenue, Glendale, California (Address of principal executive offices)	91201-2349 (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.

[X] 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).

[X] 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 [X] 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 [X] No

Indicate the number of the registrant’s outstanding common shares of beneficial interest, as of November 7, 2012:

Common Shares of beneficial interest, $.10 par value per share – 171,648,540 shares

PUBLIC STORAGE

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PUBLIC STORAGE
BALANCE SHEETS
(Amounts in thousands, except share data)

ASSETS	September 30, 2012 (Unaudited)	December 31, 2011
Cash and cash equivalents	$535,752	$139,008
Real estate facilities, at cost:		
Land	2,852,481	2,811,515
Buildings	8,128,225	7,966,061
	10,980,706	10,777,576
Accumulated depreciation	(3,650,000)	(3,398,379)
	7,330,706	7,379,197
Investment in unconsolidated real estate entities	716,401	714,627
Goodwill and other intangible assets, net	210,148	209,833
Loans receivable from unconsolidated real estate entities	399,794	402,693
Other assets	95,319	87,204
Total assets	$9,288,120	$8,932,562
LIABILITIES AND EQUITY		
Notes payable	$347,943	$398,314
Preferred shares called for redemption (Note 8)	367,325	-
Accrued and other liabilities	242,706	210,966
Total liabilities	957,974	609,280
Redeemable noncontrolling interests	-	12,355
Commitments and contingencies (Note 12)		
Equity:		
Public Storage shareholders:		
Cumulative Preferred Shares of beneficial interest, $0.01 par value, 100,000,000 shares authorized, 128,000 shares issued (in series) and	3,200,000	3,111,271

outstanding, (475,000 at December 31, 2011) at liquidation preference		
Common Shares of beneficial interest, $0.10 par value, 650,000,000 shares authorized, 170,634,560 shares issued and outstanding (170,238,805 at December 31, 2011)	17,064	17,024
Paid-in capital	5,411,623	5,442,506
Accumulated deficit	(312,690)	(259,578)
Accumulated other comprehensive loss	(15,371)	(23,014)
Total Public Storage shareholders' equity	8,300,626	8,288,209
Permanent noncontrolling interests	29,520	22,718
Total equity	8,330,146	8,310,927
Total liabilities and equity	$9,288,120	$8,932,562

See accompanying notes.

PUBLIC STORAGE
STATEMENTS OF INCOME
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating Revenues:				
Self-storage facilities	$ 440,918	$ 415,552	$ 1,268,256	$ 1,194,753
Ancillary operations	32,013	30,011	93,022	85,817
	472,931	445,563	1,361,278	1,280,570
Operating Expenses:				
Self-storage cost of operations	127,367	128,787	395,381	393,446
Ancillary cost of operations	9,857	9,793	29,156	28,304
Depreciation and amortization	89,897	90,821	265,195	268,254
General and administrative	15,298	14,116	44,117	40,944
Asset impairment charges	-	2,186	-	2,186
	242,419	245,703	733,849	733,134
Operating income	230,512	199,860	627,429	547,436
Interest and other income	5,444	6,875	16,639	25,218
Interest expense	(4,926)	(5,862)	(15,327)	(18,779)
Equity in earnings of unconsolidated real estate entities	12,642	15,269	30,353	41,755
Foreign currency exchange gain (loss)	9,019	(28,253)	(2,481)	13,495
Gain on real estate sales and debt retirement	193	4,983	1,456	5,111
Income from continuing operations	252,884	192,872	658,069	614,236
Discontinued operations	11,935	1,641	12,403	1,786
Net income	264,819	194,513	670,472	616,022
Allocation to noncontrolling interests	(927)	(3,374)	(2,585)	(12,331)
Net income allocable to Public Storage shareholders	263,892	191,139	667,887	603,691
Allocation to preferred shareholders - distributions	(49,267)	(56,670)	(156,272)	(172,926)
Allocation to preferred shareholders - redemptions	(11,350)	(16,178)	(49,677)	(32,077)
Allocation to restricted share units	(810)	(341)	(1,787)	(1,164)
Net income allocable to common shareholders	$ 202,465	$ 117,950	$ 460,151	$ 397,524
Net income per common share				

Basic				
Continuing operations	$ 1.12	$ 0.68	$ 2.63	$ 2.34
Discontinued operations	0.07	0.01	0.07	0.01
	$ 1.19	$ 0.69	$ 2.70	$ 2.35
Diluted				
Continuing operations	$ 1.11	$ 0.68	$ 2.61	$ 2.32
Discontinued operations	0.07	0.01	0.07	0.01
	$ 1.18	$ 0.69	$ 2.68	$ 2.33
Weighted average common shares outstanding				
Basic	170,576	169,728	170,460	169,512
Diluted	171,700	170,830	171,558	170,538
Cash dividends declared per common share	$ 1.10	$ 0.95	$ 3.30	$ 2.70

See accompanying notes.

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PUBLIC STORAGE
STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	$ 264,819	$ 194,513	$ 670,472	$ 616,022
Other comprehensive income (loss):				
Aggregate foreign currency exchange gain (loss)	21,081	(45,137)	5,162	14,050
Adjust for foreign currency exchange (gain) loss included in net income	(9,019)	28,253	2,481	(13,495)
Other comprehensive income (loss)	12,062	(16,884)	7,643	555
Total comprehensive income	276,881	177,629	678,115	616,577
Allocation to noncontrolling interests	(927)	(3,374)	(2,585)	(12,331)
Comprehensive income allocated to Public Storage shareholders	$ 275,954	$ 174,255	$ 675,530	$ 604,246

See accompanying notes.
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PUBLIC STORAGE
STATEMENT OF EQUITY
(Amounts in thousands, except share data)
(Unaudited)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Public Storage Shareholders' Equity	Permanent Noncontrolling Interests	Total Equity
Balance at December 31, 2011	$3,111,271	$17,024	$5,442,506	$(259,578)	$(23,014)	$8,288,209	$22,718	$8,310,927
Issuance of cumulative preferred shares (68,200,000 shares) (Note 8)	1,705,000	-	(53,544)	-	-	1,651,456	-	1,651,456
Redemption of cumulative preferred shares (64,650,833 shares) (Note 8)	(1,616,271)	-	-	-	-	(1,616,271)	-	(1,616,271)
Issuance of common shares in connection with share-based compensation (395,755 shares) (Note 10)	-	40	20,967	-	-	21,007	-	21,007
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	10,549	-	-	10,549	-	10,549
Acquisition of redeemable noncontrolling interests (Note 7)	-	-	(7,954)	-	-	(7,954)	-	(7,954)
Increase (decrease) in permanent noncontrolling interest in connection with:								
	-	-	-	-	-	-	8,224	8,224

Consolidation of partially-owned entities (Note 4)								
Acquisition of interests in Subsidiaries (Note 7)	-	-	(901)	-	-	(901)	(75)	(976)
Net income of the Company	-	-	-	670,472	-	670,472	-	670,472
Net income allocated to:								
Redeemable noncontrolling interests	-	-	-	(236)	-	(236)	-	(236)
Permanent noncontrolling interests	-	-	-	(2,349)	-	(2,349)	2,349	-
Distributions to equity holders:								
Cumulative preferred shares (Note 8)	-	-	-	(156,272)	-	(156,272)	-	(156,272)
Permanent noncontrolling interests	-	-	-	-	-	-	(3,696)	(3,696)
Common shares and restricted share units ($3.30 per share)	-	-	-	(564,727)	-	(564,727)	-	(564,727)
Other comprehensive income (Note 2)	-	-	-	-	7,643	7,643	-	7,643
Balance at September 30, 2012	$3,200,000	$17,064	$5,411,623	$(312,690)	$(15,371)	$8,300,626	$29,520	$8,330,146

See accompanying notes.

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PUBLIC STORAGE
STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	For the Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 670,472	$ 616,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on real estate sales and debt retirement, including amounts in discontinued operations	(13,191)	(5,799)
Asset impairment charges	-	2,186
Depreciation and amortization, including amounts in discontinued operations	265,517	268,695
Distributions received from unconsolidated real estate entities in excess of equity in earnings	3,119	97
Foreign currency exchange loss (gain)	2,481	(13,495)
Other	27,357	41,087
Total adjustments	285,283	292,771
Net cash provided by operating activities	955,755	908,793
Cash flows from investing activities:		
Capital improvements to real estate facilities	(58,642)	(57,026)
Construction in process	(5,265)	(16,743)
Acquisition of real estate facilities and property intangibles (Note 3)	(143,827)	(60,888)
Proceeds from sales of other real estate investments	15,973	4,753
Loans to unconsolidated real estate entities	-	(358,877)
Repayments of loans receivable from unconsolidated real estate entities (Note 5)	-	163,663
Disposition of loans receivable from unconsolidated real estate entities (Note 5)	-	121,317
Acquisition of investments in unconsolidated real estate entities	-	(1,274)
Maturities of marketable securities	-	102,279
Other investing activities	4,022	537
Net cash used in investing activities	(187,739)	(102,259)
Cash flows from financing activities:		
Principal payments on notes payable	(49,287)	(154,411)
Net proceeds from the issuance of common shares	21,007	15,728
Issuance of cumulative preferred shares	1,651,456	835,627
Redemption of cumulative preferred shares	(1,248,946)	(1,042,256)
Acquisition of redeemable noncontrolling interests	(19,900)	-
Acquisition of permanent noncontrolling interests	(976)	(112,115)
Distributions paid to Public Storage shareholders	(720,999)	(632,248)
Distributions paid to noncontrolling interests	(4,341)	(12,237)
Net cash used in financing activities	(371,986)	(1,101,912)

Net increase (decrease) in cash and cash equivalents		396,030		(295,378)
Net effect of foreign exchange translation on cash		714		(141)
Cash and cash equivalents at the beginning of the period		139,008		456,252
Cash and cash equivalents at the end of the period	$	535,752	$	160,733

See accompanying notes.

PUBLIC STORAGE
STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

(Continued)

	For the Nine Months Ended September 30, 2012	2011
Supplemental schedule of non-cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	$ (643)	$ (139)
Investment in unconsolidated real estate entities	(6,701)	(269)
Intangible assets	(3)	-
Loans receivable from unconsolidated real estate entities	418	(13,783)
Accumulated other comprehensive income	7,643	14,050
Preferred shares called for redemption and reclassified to liabilities:		
Preferred shares called for redemption	367,325	-
Cumulative preferred shares	(367,325)	-
Consolidation of entities previously accounted for under the equity method of accounting (Note 4):		
Real estate facilities	(10,403)	(19,415)
Investments in unconsolidated real estate entities	3,072	6,126
Intangible assets	(949)	(3,985)
Permanent noncontrolling interests	8,224	17,663
Adjustments of redeemable noncontrolling interests to fair values:		
Accumulated deficit	-	(259)
Redeemable noncontrolling interests	-	259
Exchange of loan receivable from Shurgard Europe for investment (Note 5):		
Loans receivable from unconsolidated real estate entities	-	116,560
Investment in unconsolidated real estate entities	-	(116,560)

Real estate acquired in connection with elimination of intangible assets	-	(4,738)
Intangible assets eliminated in connection with acquisition of real estate	-	4,738
Real estate acquired in exchange for assumption of note payable	-	(9,679)
Note payable assumed in connection with acquisition of real estate	-	9,679
Noncontrolling interests acquired in exchange for the issuance of common shares (Note 7)		
Additional paid in capital (noncontrolling interests acquired)	-	(57,108)
Common shares	-	48
Additional paid in capital (common shares issued)	-	57,060

See accompanying notes.

PUBLIC STORAGE
CONDENSED NOTES TO FINANCIAL STATEMENTS
September 30, 2012
(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 September 30, 2012, we had direct and indirect equity interests in 2,069 self-storage facilities (with approximately 132 million net rentable square feet) located in 38 states in the U.S. operating under the "Public Storage" name. We also own one self-storage facility in London, England and we have a 49% interest in Shurgard Europe, which owns 188 self-storage facilities (with approximately 10.1 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 29.8 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 September 30, 2012, we have an approximate 41% interest in PSB.

Disclosures of number or square footage of properties, as well as number of or 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 nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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, 2011.

Certain amounts previously reported in our December 31, 2011 and September 30, 2011 financial statements have been reclassified to conform to the September 30, 2012 presentation, as a result of discontinued operations.

Consolidation and Equity Method of Accounting

The Codification stipulates generally that entities with 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, are considered Variable Interest Entities ("VIE"). We have determined that 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 do not control, but we have significant influence over, using the 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 entities in which we already own a partial equity interest, we record a gain representing the differential between the book value and fair value of our preexisting equity interest. We then commence consolidating the assets, liabilities, and any noncontrolling interests of the entity. All such changes in consolidation status are reflected prospectively.

When we are the general partner of a partnership, we assume that 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 September 30, 2012, the Company and the Subsidiaries own 2,055 self-storage facilities in the U.S., one self-storage facility in London, England and six commercial facilities in the U.S. At September 30, 2012, 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.

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 2012, 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 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 September 30, 2012, 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 and equity investments as incurred. We expense 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 account for acquisitions of interests in operating self-storage facilities, including the consolidation of entities where we obtain control other than by acquiring interests, under the provisions of Codification Section 805, "Business Combinations." We allocate the net acquisition cost (consisting of the fair value of our existing investment, plus any cash paid to third parties for their interests and the fair value of any 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, 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

We classify as cash equivalents all highly liquid financial instruments such as money market funds with daily liquidity and a rating of at least AAA by Standard and Poor's, or investment grade (rated A1 by Standard and Poor's) short-term commercial paper or treasury securities with remaining maturities of three months or less at the date of acquisition. Cash and cash equivalents which are restricted from general corporate use are included in other assets.

Commercial paper with a remaining maturity of more than three months when acquired is included in marketable securities. When at acquisition we have the positive intent and ability to hold these securities to maturity (investments that are "Held to Maturity"), the securities are stated at amortized cost and interest is recorded 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 fair value 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, goodwill, and other intangible assets for impairment, and to determine the fair values of our notes payable and noncontrolling interests in subsidiaries. In estimating fair values, we consider significant unobservable inputs such as market prices of land, capitalization rates for real estate facilities, earnings multiples, projected levels of earnings, costs of construction, functional depreciation, and estimated 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.

PUBLIC STORAGE
CONDENSED NOTES TO FINANCIAL STATEMENTS
September 30, 2012
(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. At September 30, 2012, due primarily to our investment in and loan receivable from Shurgard Europe, our operations 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, acquired tenants in place, leasehold interests in land, and the “Shurgard” tradename.

Goodwill totaled $174.6 million at September 30, 2012 and December 31, 2011. Goodwill has an indeterminate life and is 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 September 30, 2012, these intangibles have a net book value of $16.7 million ($16.4 million at December 31, 2011). Accumulated amortization totaled $23.2 million at September 30, 2012 ($24.1 million at December 31, 2011), and amortization expense of $7.3 million and $9.2 million was recorded for the nine months ended September 30, 2012 and 2011, respectively. During the nine months ended September 30, 2012, these intangibles were increased by (i) $6.7 million in connection with the acquisition of self-storage facilities (Note 3) and (ii) $0.9 million in connection with the consolidation of three facilities we previously accounted for under the equity method (Note 4).

The “Shurgard” tradename, which is used by Shurgard Europe pursuant to a licensing agreement, has a book value of $18.8 million at September 30, 2012 and December 31, 2011. This asset has an indefinite life and, accordingly, is not amortized.

Evaluation of Asset Impairment

Goodwill impairment is evaluated annually by reporting unit. No impairment of goodwill or the Shurgard trade name was identified in our annual evaluation at December 31, 2011, nor were there any indicators of impairment at September 30, 2012. We evaluate our real estate and property related intangibles for impairment on a quarterly basis. If any indicators of impairment are noted, we estimate future undiscounted cash flows to be received from the use of the asset and, if such future undiscounted cash flows are less than carrying value, an impairment charge is recorded for the excess of carrying value over the assets’ estimated fair value. Long-lived assets which we expect to sell or otherwise dispose of prior to the end of their estimated useful lives are stated at the lower of their net realizable value (estimated fair value less cost to sell) or their carrying value.

PUBLIC STORAGE
CONDENSED NOTES TO FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

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, yellow page, 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 amounts on our balance sheets 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 1.286 U.S. Dollars per Euro at September 30, 2012 (1.295 at December 31, 2011), and average exchange rates of 1.251 and 1.415 for the three months ended September 30, 2012 and 2011, respectively, and average exchange rates of 1.282 and 1.406 for the nine months ended September 30, 2012 and 2011, 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).

Comprehensive Income (Loss)

Total comprehensive income for a period represents net income, adjusted for changes in other comprehensive income (loss) for the applicable period, as set forth on our statements of comprehensive income. 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

The net income of real estate facilities or other businesses that have been sold or otherwise disposed of, or that we plan to sell or dispose of within the next year are presented on our statement of income for all periods as "discontinued operations." In addition to the revenues and expenses of disposed self-storage facilities, discontinued operations includes $11.7 million in gains on disposition of real estate facilities for each of the three and nine month periods ended September 30, 2012 and $1.7 million and $1.4 million in net gains on disposition of real estate facilities for the three and nine months ended September 30, 2011, respectively.

Net Income per Common Share

Net income is first allocated to each of our noncontrolling interests based upon their respective share of the net income of the Subsidiaries, and to our cumulative preferred shares based upon the dividends declared or accumulated during the period.

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When our cumulative preferred shares are called for redemption, additional income is allocated to the security to the extent the redemption cost is greater than the related original net issuance proceeds. These allocations are referred to hereinafter as "EITF D-42 allocations." The remaining net income is allocated to our common shares and our restricted share units based upon the dividends declared during the period, combined with participation rights in undistributed earnings.

Basic net income per share, basic net income (loss) 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 (loss) 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 the components of the calculations of our basic and diluted net income per share, basic and diluted net income (loss) from discontinued operations per share, and basic and diluted net income from continuing operations per share which are not already otherwise set forth on the face of our statements of income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Amounts in thousands)			
Net income allocable to common shareholders from continuing operations and discontinued operations:				
Net income allocable to common shareholders	$ 202,465	$ 117,950	$ 460,151	$ 397,524
Eliminate: Discontinued operations allocable to common shareholders	(11,935)	(1,641)	(12,403)	(1,786)
Net income from continuing operations allocable to common shareholders	$ 190,530	$ 116,309	$ 447,748	$ 395,738
Weighted average common shares and equivalents outstanding:				
Basic weighted average common shares outstanding	170,576	169,728	170,460	169,512

Net effect of dilutive stock options - based on treasury stock method	1,124	1,102	1,098	1,026
Diluted weighted average common shares outstanding	171,700	170,830	171,558	170,538

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3. Real Estate Facilities

Activity in real estate facilities is as follows:

	Nine Months Ended September 30, 2012 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	$ 10,777,576
Capital improvements	58,642
Acquisition of real estate facilities	147,461
Disposition of real estate facilities	(9,275)
Current development	5,265
Impact of foreign exchange rate changes	1,037
Ending balance	10,980,706
Accumulated depreciation:	
Beginning balance	(3,398,379)
Depreciation expense	(256,457)
Disposition of real estate facilities	5,230
Impact of foreign exchange rate changes	(394)
Ending balance	(3,650,000)
Total real estate facilities at September 30, 2012	$ 7,330,706

During the nine months ended September 30, 2012, we acquired 14 operating self-storage facilities (1,148,000 net rentable square feet) for an aggregate cost of $143.8 million of cash. The aggregate cost was allocated $137.1 million to real estate facilities and $6.7 million to intangible assets.

During the nine months ended September 30, 2012, we began to consolidate a limited partnership that we had previously accounted for using the equity method (see Note 4). The three self-storage facilities (183,000 net rentable square feet) owned by this entity, having an aggregate fair market value of $10.4 million, have been added to our operating facilities.

4. Investments in Real Estate Entities

The following tables set forth our investments in the Unconsolidated Real Estate Entities at September 30, 2012 and December 31, 2011, and our equity in earnings of the Unconsolidated Real Estate Entities for the three and nine months ended September 30, 2012 and 2011 (amounts in thousands):

	Investments in Unconsolidated Real Estate Entities at	
	September 30, 2012	December 31, 2011
PSB	$ 316,634	$ 328,508
Shurgard Europe	391,612	375,467
Other Investments	8,155	10,652
Total	$ 716,401	$ 714,627

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	Equity in Earnings of Unconsolidated Real Estate Entities for the Three Months Ended September 30,		Equity in Earnings of Unconsolidated Real Estate Entities for the Nine Months Ended September 30,	
	2012	2011	2012	2011