Public Storage
Form 10-Q
May 10, 2013
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 March 31, 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 incorporation or organization)	(I.R.S. Employer Identification Number)
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.

[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 May 8, 2013:

Common Shares of beneficial interest, $.10 par value per share – 171,858,839 shares

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PUBLIC STORAGE

BALANCE SHEETS

(Amounts in thousands, except share data)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 398,252	$ 17,239
Real estate facilities, at cost:		
Land	2,864,996	2,863,464
Buildings	8,188,436	8,170,355
	11,053,432	11,033,819
Accumulated depreciation	(3,825,115)	(3,738,130)
	7,228,317	7,295,689
Construction in process	64,022	36,243
	7,292,339	7,331,932
Investments in unconsolidated real estate entities	717,264	735,323
Goodwill and other intangible assets, net	207,004	209,374
Loan receivable from unconsolidated real estate entity	398,565	410,995
Other assets	88,127	88,540
Total assets	$ 9,101,551	$ 8,793,403
LIABILITIES AND EQUITY		
Borrowings on bank credit facility	$ -	$ 133,000
Notes payable	142,419	335,828
Accrued and other liabilities	205,129	201,711
Total liabilities	347,548	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, 171,534,957 shares issued and outstanding (171,388,286 shares at December 31, 2012)	17,154	17,139
Paid-in capital	5,498,782	5,519,596
Accumulated deficit	(331,984)	(279,474)
Accumulated other comprehensive loss	(20,889)	(1,005)
Total Public Storage shareholders' equity	8,725,563	8,093,756

Permanent noncontrolling interests	28,440	29,108
Total equity	8,754,003	8,122,864
Total liabilities and equity	$ 9,101,551	$ 8,793,403

See accompanying notes.

PUBLIC STORAGE

INCOME STATEMENTS

(Amounts in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Revenues:		
Self-storage facilities	$ 439,665	$ 410,559
Ancillary operations	31,235	29,276
	470,900	439,835
Expenses:		
Self-storage cost of operations	140,993	142,193
Ancillary cost of operations	9,396	9,518
Depreciation and amortization	91,001	86,824
General and administrative	18,253	16,405
	259,643	254,940
Operating income	211,257	184,895
Interest and other income	5,581	5,655
Interest expense	(3,497)	(5,334)
Equity in earnings of unconsolidated real estate entities	11,643	9,115
Foreign currency exchange (loss) gain	(12,737)	12,157
Income from continuing operations	212,247	206,488
Discontinued operations	-	234
Net income	212,247	206,722
Allocation to noncontrolling interests	(1,024)	(870)
Net income allocable to Public Storage shareholders	211,223	205,852
Allocation of net income to:		
Preferred shareholders - distributions	(48,590)	(55,095)
Preferred shareholders - redemptions	-	(24,900)
Restricted share units	(697)	(514)

Net income allocable to common shareholders	$ 161,936	$ 125,343
Net income per common share – basic		
Continuing operations	$ 0.94	$ 0.74
Discontinued operations	-	-
	0.94	0.74
Net income per common share – diluted		
Continuing operations	$ 0.94	$ 0.73
Discontinued operations	-	-
	0.94	0.73
Basic weighted average common shares outstanding	171,446	170,309
Diluted weighted average common shares outstanding	172,514	171,415
Cash dividends declared per common share	$ 1.25	$ 1.10

See accompanying notes.

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STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Net income	$ 212,247	$ 206,722
Other comprehensive (loss) income:		
Aggregate foreign currency exchange (loss) gain	(32,621)	23,221
Adjust for foreign currency exchange loss (gain) included in net income	12,737	(12,157)
Other comprehensive (loss) income:	(19,884)	11,064
Total comprehensive income	192,363	217,786
Allocation to noncontrolling interests	(1,024)	(870)
Comprehensive income allocated to Public Storage shareholders	$ 191,339	$ 216,916

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	Permanent 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 (146,671 shares) (Note 10)	-	15	3,848	-	-	3,863	-	3,863
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	(1,349)	-	-	(1,349)	-	(1,349)
Net income	-	-	-	212,247	-	212,247	-	212,247
Net income allocated to (Note 7):								
Permanent noncontrolling interests	-	-	-	(1,024)	-	(1,024)	1,024	-

Distributions to equity holders:								
Preferred shares (Note 8)	-	-	-	(48,590)	-	(48,590)	-	(48,590)
Permanent noncontrolling interests	-	-	-	-	-	-	(1,692)	(1,692)
Common shares and restricted share units ($1.25 per share)	-	-	-	(215,143)	-	(215,143)	-	(215,143)
Other comprehensive income (Note 2)	-	-	-	-	(19,884)	(19,884)	-	(19,884)
Balances at March 31, 2013	$ 3,562,500	$ 17,154	$ 5,498,782	$ (331,984)	$ (20,889)	$ 8,725,563	$ 28,440	$ 8,754,003

See accompanying notes.

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STATEMENTS OF CASH FLOWS

(Amounts in thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	$ 212,247	$ 206,722
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including amounts in discontinued operations	91,001	86,938
Distributions received from unconsolidated real estate entities (less than) in excess of equity in earnings	(493)	1,957
Foreign currency exchange loss (gain)	12,737	(12,157)
Other	(6,153)	(3,970)
Total adjustments	97,092	72,768
Net cash provided by operating activities	309,339	279,490
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(7,818)	(14,278)
Construction in process	(27,779)	(997)
Acquisition of real estate facilities and intangibles (Note 3)	(13,540)	(41,970)
Other	7,721	2,950
Net cash used in investing activities	(41,416)	(54,295)
Cash flows from financing activities:		
Repayments on bank credit facility	(133,000)	-
Repayments on notes payable	(193,186)	(24,884)
Issuance of common shares	3,863	9,722
Issuance of preferred shares	701,687	893,170
Redemption of preferred shares	-	(356,687)
Acquisition of noncontrolling interests	-	(20,222)
Distributions paid to Public Storage shareholders	(263,733)	(243,243)
Distributions paid to noncontrolling interests	(1,692)	(1,739)
Net cash provided by financing activities	113,939	256,117
Net increase in cash and cash equivalents	381,862	481,312
Net effect of foreign exchange translation on cash and cash equivalents	(849)	(241)
Cash and cash equivalents at the beginning of the period	17,239	139,008
Cash and cash equivalents at the end of the period	$ 398,252	$ 620,079

Supplemental schedule of non-cash investing and financing activities:

Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	$ 789	$ (464)
Investment in unconsolidated real estate entities	18,553	(10,858)
Loan receivable from unconsolidated real estate entity	12,430	(12,140)
Accumulated other comprehensive (loss) income	(32,621)	23,221
Preferred shares called for redemption and reclassified:		
To liabilities	-	476,634
From equity	-	(476,634)

See accompanying notes.

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 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 March 31, 2013, we have direct and indirect equity interests in 2,080 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 March 31, 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 months ended March 31, 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 March 31, 2012 financial statements have been reclassified to conform to the March 31, 2013 presentation, as a result of 1) 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.

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CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

We account for our investments in entities that we have significant influence over, but do not control, 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 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 March 31, 2013, the Company and the Subsidiaries own 2,066 self-storage facilities in the U.S., one self-storage facility in London, England and six commercial facilities in the U.S. At March 31, 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.

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 March 31, 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.

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(Unaudited)

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 our existing investment, 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, 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 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, 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, 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 and loan receivable.

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(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 March 31, 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, acquired tenants in place, leasehold interests in land, and the "Shurgard" trade name.

Goodwill totaled $174.6 million at March 31, 2013 and December 31, 2012. 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 March 31, 2013, these intangibles have a net book value of $13.6 million ($15.9 million at December 31, 2012). Accumulated amortization totaled $26.0 million at March 31, 2013 ($24.8 million at December 31, 2012), and amortization expense of $2.6 million and $2.0 million was recorded in the three months ended March 31, 2013 and 2012, respectively. During the three months ended March 31, 2013 and 2012, intangibles were increased $0.3 million and $3.4 million, respectively, in connection with the acquisition of self-storage facilities.

The "Shurgard" trade name, which is used by Shurgard Europe pursuant to a licensing agreement, has a book value of $18.8 million at March 31, 2013 and December 31, 2012. This asset has an indefinite life and, accordingly, is not amortized.

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 or amortized 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 estimated fair value of the asset. 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 indefinite lived intangible assets (other than goodwill) for impairment through a quantitative analysis, and recorded 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.

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CONDENSED NOTES TO FINANCIAL STATEMENTS

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(Unaudited)

Otherwise, we record an impairment charge for any excess of carrying amount over the asset's 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 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 and the acquisition were 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, 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 1.282 U.S. Dollars per Euro at March 31, 2013 (1.322 at December 31, 2012), and average exchange rates of 1.320 and 1.310 for the three months ended March 31, 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).

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CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 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 represents the net income of those facilities that have been disposed of as of March 31, 2013, or which we plan to dispose of within a year.

Net Income per Common Share

Net income is allocated to (i) our noncontrolling interests based upon their respective 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 the components of the calculations of our 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 which are not already otherwise set forth on the face of our statements of income:

	For the Three Months Ended March 31,	
	2013	2012
	(Amounts in thousands)	

Net income allocable to common shareholders from continuing operations and discontinued operations:

Net income allocable to common shareholders	$ 161,936	$ 125,343
Eliminate: Discontinued operations allocable to common shareholders	-	(234)
Net income from continuing operations allocable to common shareholders	$ 161,936	$ 125,109
Weighted average common shares and equivalents outstanding:		
Basic weighted average common shares outstanding	171,446	170,309
Net effect of dilutive stock options - based on treasury stock method	1,068	1,106
Diluted weighted average common shares outstanding	172,514	171,415

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CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

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 about items reclassified out of accumulated other comprehensive income. ASU 2013-02 requires us to report, in one place, information about reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires that for items reclassified to net income in their entirety, information about the effect of significant reclassification items on line items of net income by component of other comprehensive income. For other accumulated other comprehensive income reclassification items not required to be reclassified directly to net income in their entirety, we must cross-reference to the note to our financial statements where additional details about the effects of the reclassification are disclosed. The adoption of ASU No. 2013-02 had no impact on our financial condition or results of operations.

3. Real Estate Facilities

Activity in real estate facilities is as follows:

	Three Months Ended March 31, 2013 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	$ 11,033,819
Capital expenditures to maintain real estate facilities	7,818
Acquisitions	13,159
Impact of foreign exchange rate changes	(1,364)
Ending balance	11,053,432
Accumulated depreciation:	
Beginning balance	(3,738,130)
Depreciation expense	(87,560)
Impact of foreign exchange rate changes	575
Ending balance	(3,825,115)
Construction in process:	
Beginning balance	36,243
Current development	27,779
Ending balance	64,022

Total real estate facilities at March 31, 2013	$ 7,292,339

During the three months ended March 31, 2013, we acquired two operating self-storage facilities from third parties (149,000 net rentable square feet of storage space) for $13.5 million in cash, with $13.2 million allocated to real estate facilities and $0.3 million allocated to intangible assets. Construction in process at March 31, 2013, consists of 19 projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 1.3 million net rentable square feet, for an aggregate estimated cost of approximately $169 million, of which $64 million had been incurred as of March 31, 2013.

4. Investments in Unconsolidated Real Estate Entities

The following table sets forth our investments in the Unconsolidated Real Estate Entities at March 31, 2013 and December 31, 2012, and our equity in earnings of the Unconsolidated Real Estate Entities for the three months ended March 31, 2013 and 2012 (amounts in thousands):

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

	Investments in Unconsolidated Real Estate Entities at March 31, 2013	December 31, 2012
PSB	$ 314,921	$ 316,078
Shurgard Europe	394,382	411,107
Other Investments	7,961	8,138
Total	$ 717,264	$ 735,323

	Equity in Earnings of Unconsolidated Real Estate Entities for the Three Months Ended March 31, 2013	2012
PSB	$ 4,610	$ 1,895
Shurgard Europe	6,667	6,842
Other Investments	366	378
Total	$ 11,643	$ 9,115

During the three months ended March 31, 2013 and 2012, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling $11.2 million and $11.1 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 March 31, 2013 (41% at 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 March 31, 2013 ($78.92 per share of PSB common stock), the shares and units we owned had a market value of approximately $1.0 billion.

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

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

	2013	2012
	(Amounts in thousands)	
For the three months ended March 31,		
Total revenue	$ 88,278	$ 84,843
Costs of operations	(29,384)	(28,115)
Depreciation and amortization	(26,961)	(27,244)
General and administrative	(2,399)	(2,273)
Other items	(4,545)	(5,366)
Net income	24,989	21,845
Net income allocated to preferred unitholders, preferred shareholders and restricted stock unitholders (a)	(13,883)	(17,329)
Net income allocated to common shareholders and common unitholders	$ 11,106	$ 4,516

(a) Includes EITF D-42 allocations to preferred equity holders of $5.3 million during the three months ended March 31, 2012 related to PSB's redemption of preferred securities.

	March 31, 2013	December 31, 2012
	(Amounts in thousands)	
Total assets (primarily real estate)	$ 2,126,691	$ 2,151,817
Debt	340,000	468,102
Other liabilities	66,154	69,454
Equity:		
Preferred stock and units	995,000	885,000
Common equity and units	725,537	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 $18.6 million during the three months ended March 31, 2013 and increase approximately $10.9 million during the three months ended March 31, 2012.

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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PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

2013	2012
(Amounts in thousands)	