

Public Storage
Form 10-Q
November 04, 2014

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 September 30, 2014

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.

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).

Indicate the number of the registrant's outstanding common shares of beneficial interest, as of November 2, 2014:

Common Shares of beneficial interest, \$.10 par value per share – 172,725,666 shares

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BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 98,252	\$ 19,169
Real estate facilities, at cost:		
Land	3,421,473	3,321,236
Buildings	9,243,560	8,965,020
	12,665,033	12,286,256
Accumulated depreciation	(4,384,959)	(4,098,814)
	8,280,074	8,187,442
Construction in process	72,521	52,336
	8,352,595	8,239,778
Investments in unconsolidated real estate entities	837,624	856,182
Goodwill and other intangible assets, net	229,984	246,854
Loan receivable from Shurgard Europe	-	428,139
Other assets	106,013	86,144
Total assets	\$ 9,624,468	\$ 9,876,266
LIABILITIES AND EQUITY		
Borrowings on bank credit facility	\$ -	\$ 50,100
Term loan	-	700,000
Notes payable	71,632	88,953
Accrued and other liabilities	260,461	218,358
Total liabilities	332,093	1,057,411

Commitments and contingencies (Note 12)

Equity:

Public Storage shareholders' equity:

Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 165,400 shares issued (in series) and outstanding, (142,500 at December 31, 2013), at liquidation preference	4,135,000	3,562,500
Common Shares, \$0.10 par value, 650,000,000 shares authorized, 172,418,434 shares issued and outstanding (171,776,291 shares at December 31, 2013)	17,242	17,178
Paid-in capital	5,559,746	5,531,034
Accumulated deficit	(417,663)	(318,482)
Accumulated other comprehensive loss	(27,895)	(500)
Total Public Storage shareholders' equity	9,266,430	8,791,730
Noncontrolling interests	25,945	27,125
Total equity	9,292,375	8,818,855
Total liabilities and equity	\$ 9,624,468	\$ 9,876,266

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,	
	2014	2013	2014	2013
Revenues:				
Self-storage facilities	\$ 534,271	\$ 477,978	\$ 1,520,661	\$ 1,369,219
Ancillary operations	37,325	33,979	108,596	99,016
	571,596	511,957	1,629,257	1,468,235
Expenses:				
Self-storage cost of operations	146,979	136,751	445,474	409,881
Ancillary cost of operations	13,014	11,052	39,592	30,882
Depreciation and amortization	111,077	96,537	326,541	278,475
General and administrative	17,874	17,650	52,240	49,988
	288,944	261,990	863,847	769,226
Operating income	282,652	249,967	765,410	699,009
Interest and other income	749	5,608	4,151	16,705
Interest expense	(1,238)	(478)	(6,781)	(4,622)
Equity in earnings of unconsolidated real estate entities	14,566	14,269	43,305	39,013
Foreign currency exchange (loss) gain	(3,012)	16,094	(7,035)	9,281
Gain on real estate sales	1,260	168	2,479	168
Net income	294,977	285,628	801,529	759,554
Allocation to noncontrolling interests	(1,518)	(1,430)	(4,040)	(3,670)
Net income allocable to Public Storage shareholders	293,459	284,198	797,489	755,884
Allocation of net income to:				
Preferred shareholders	(60,763)	(51,907)	(170,942)	(152,404)
Restricted share units	(881)	(930)	(2,328)	(2,498)
Net income allocable to common shareholders	\$ 231,815	\$ 231,361	\$ 624,219	\$ 600,982
Net income allocable to common shareholders per common share:				

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Basic	\$ 1.34	\$ 1.35	\$ 3.63	\$ 3.50
Diluted	\$ 1.34	\$ 1.34	\$ 3.61	\$ 3.48
Basic weighted average common shares outstanding	172,378	171,721	172,190	171,597
Diluted weighted average common shares outstanding	173,304	172,793	173,098	172,651
Cash dividends declared per common share	\$ 1.40	\$ 1.25	\$ 4.20	\$ 3.75

See accompanying notes.

PUBLIC STORAGE

STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 294,977	\$ 285,628	\$ 801,529	\$ 759,554
Other comprehensive income (loss):				
Aggregate foreign currency exchange (loss) gain	(26,339)	34,135	(34,430)	5,805
Adjust for foreign currency exchange loss (gain) included in net income	3,012	(16,094)	7,035	(9,281)
Other comprehensive (loss) income	(23,327)	18,041	(27,395)	(3,476)
Total comprehensive income	271,650	303,669	774,134	756,078
Allocation to noncontrolling interests	(1,518)	(1,430)	(4,040)	(3,670)
Comprehensive income allocable to Public Storage shareholders	\$ 270,132	\$ 302,239	\$ 770,094	\$ 752,408

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	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity	
Balances at December 31, 2013	\$ 3,562,500	\$ 17,178	\$ 5,531,034	\$ (318,482)	\$ (500)	\$ 8,791,730	\$ 27,125	\$ 8,818,855
Issuance of 22,900 preferred shares (Note 8)	572,500	-	(17,394)	-	-	555,106	-	555,106
Issuance of common shares in connection with share-based compensation (642,143 shares) (Note 10)	-	64	35,846	-	-	35,910	-	35,910
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	10,260	-	-	10,260	-	10,260
Net income	-	-	-	801,529	-	801,529	-	801,529
Net income allocated to noncontrolling interests	-	-	-	(4,040)	-	(4,040)	4,040	-
Distributions to equity holders:	-	-	-	(170,942)	-	(170,942)	-	(170,942)

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Preferred shares (Note 8)								
Noncontrolling interests	-	-	-	-	-	-	(5,220)	(5,220)
Common shares and restricted share units (\$4.20 per share)	-	-	-	(725,728)	-	(725,728)	-	(725,728)
Other comprehensive loss (Note 2)	-	-	-	-	(27,395)	(27,395)	-	(27,395)
Balances at September 30, 2014	\$ 4,135,000	\$ 17,242	\$ 5,559,746	\$ (417,663)	\$ (27,895)	\$ 9,266,430	\$ 25,945	\$ 9,292,375

See accompanying notes.

PUBLIC STORAGE

STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 801,529	\$ 759,554
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on real estate sales	(2,479)	(168)
Depreciation and amortization	326,541	278,475
Distributions received from unconsolidated real estate entities less than equity in earnings	(7,852)	(5,182)
Foreign currency exchange loss (gain)	7,035	(9,281)
Other	28,375	16,265
Total adjustments	351,620	280,109
Net cash provided by operating activities	1,153,149	1,039,663
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(63,599)	(55,883)
Construction in process	(80,027)	(78,578)
Acquisition of real estate facilities and intangibles (Note 3)	(271,228)	(392,380)
Investment in unconsolidated real estate entities	-	(29,752)
Proceeds from sale of real estate investments	2,581	257
Disposition of portion of loan receivable from Shurgard Europe	216,217	-
Repayments of loan receivable from Shurgard Europe	204,947	-
Other	891	9,674
Net cash provided by (used in) investing activities	9,782	(546,662)
Cash flows from financing activities:		
Repayments on bank credit facility	(50,100)	(133,000)
Repayments on term loan	(700,000)	-
Repayments on notes payable	(21,994)	(234,936)
Issuance of common shares	35,910	20,482
Issuance of preferred shares	555,106	701,687
Acquisition of noncontrolling interests	-	(4,482)
Distributions paid to Public Storage shareholders	(896,670)	(798,300)
Distributions paid to noncontrolling interests	(5,220)	(4,844)

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Net cash used in financing activities	(1,082,968)	(453,393)
Net increase in cash and cash equivalents	79,963	39,608
Net effect of foreign exchange translation on cash and cash equivalents	(880)	118
Cash and cash equivalents at the beginning of the period	19,169	17,239
Cash and cash equivalents at the end of the period	\$ 98,252	\$ 56,965

See accompanying notes.

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STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Supplemental schedule of non-cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	\$ 165	\$ (9)
Investments in unconsolidated real estate entities	26,410	3,768
Loan receivable from Shurgard Europe	6,975	(9,446)
Accumulated other comprehensive (loss) income	(34,430)	5,805
Real estate acquired in exchange for assumption of note payable	(5,097)	-
Note payable assumed in connection with acquisition of real estate	5,097	-

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(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, 2014, we have direct and indirect equity interests in 2,234 self-storage facilities (with approximately 144 million net rentable square feet) located in 38 states in the United States (“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 187 self-storage facilities (with approximately 10 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 31 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, 2014, we have an approximate 42% common equity 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 (U.S.).

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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 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, 2013.

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 or other involvement 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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NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(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”), eliminating intra-entity profits and losses and amortizing any differences between the cost and the underlying equity in net assets against equity in earnings as if the Unconsolidated Real Estate Entity were a consolidated subsidiary. 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 September 30, 2014, the Company and the Subsidiaries own 2,221 self-storage facilities in the U.S., one self-storage facility in London, England and five commercial facilities in the U.S. At September 30, 2014, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 13 self-storage facilities in the U.S. (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 2014, 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 ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of September 30, 2014, 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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NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

We allocate the net acquisition cost of acquired operating self-storage facilities 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, Marketable Securities and Other Financial Instruments

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. Transfers of financial assets are recorded as sales when the asset is put presumptively beyond our and our creditors' reach, there is no impediment to the transferee's right to pledge or exchange the asset, we have surrendered effective control of the asset, we have no actual or effective right or requirement to repurchase the asset and, in the case of a transfer of a participating interest, there is no impediment to our right to pledge or exchange the participating interest we retain.

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

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September 30, 2014

(Unaudited)

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.

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 September 30, 2014, due primarily to our investment in 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. In July 2014, Shurgard Europe fully repaid its €311.0 million shareholder loan with financing proceeds it received from third parties. We received a total of \$204.9 million for our 49% share of the loan, based upon the foreign exchange rates at the date of repayment. As the loan is repaid, no further foreign exchange gains or losses on the loan are expected.

Goodwill and Other Intangible Assets

Intangible assets are comprised of goodwill, the “Shurgard” trade name, acquired customers in place, and leasehold interests in land.

Goodwill totaled \$174.6 million at September 30, 2014 and December 31, 2013. 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 September 30, 2014 and December 31, 2013. Goodwill and the “Shurgard” trade name have indefinite lives and are not amortized.

Acquired customers in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the customers in place or the benefit to land lease expense for each period. At September 30, 2014, these intangibles have a net book value of \$36.6 million (\$53.4 million at December 31, 2013). Accumulated amortization totaled \$59.8 million at September 30, 2014 (\$35.1 million at December 31, 2013), and amortization expense of \$37.4 million and \$9.8 million was recorded in the nine months ended September 30, 2014 and 2013, respectively. The estimated future amortization expense for our finite-lived intangible assets at September 30, 2014 is \$9.1 million in the remainder of 2014, \$16.9 million in 2015 and \$10.6 million thereafter. During the nine months ended September 30, 2014 and 2013, intangibles were increased \$20.5 million and \$17.5 million, respectively, in connection with the acquisition of self-storage facilities and leasehold interests.

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

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NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

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.

If we determine, based upon the relevant events and circumstances and other such qualitative factors, that it is more likely than not that the "Shurgard" trade name 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.

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. In July 2014, Shurgard Europe fully repaid our loan receivable from them.

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

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

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 1.269 U.S. Dollars per Euro at September 30, 2014 (1.377 at December 31, 2013), and average exchange rates of 1.326 and 1.324 for the three months ended September 30, 2014 and 2013, respectively, and average exchange rates of 1.356 and 1.317 for the nine months ended September 30, 2014 and 2013, 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 (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

In April 2014, the Financial Accounting Standards Board (“FASB”) revised standards to limit the presentation as discontinued operations only to those facility disposals that represent a strategic shift and have a major impact upon operations, rather than to all facility disposals under previous standards. This change applies to disposals occurring after our early adoption date (as encouraged by the standard) of January 1, 2014. This change has no material impact on our financial statements.

Recent Accounting Pronouncements and Guidance

In May 2014, the FASB issued an accounting standard (ASU No. 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The new standard is effective for us on January 1, 2017. Early adoption is not permitted. We have not yet selected a transition method. We do not believe the adoption of ASU No. 2014-09 will have a material impact on our results of operations or financial condition.

Net Income per Common Share

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

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Basic net income per share is computed using the weighted average common shares outstanding. Diluted net income per share is 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 net income allocable to common shareholders and the weighted average common shares and equivalents outstanding, as used in our calculations of basic and diluted net income per share:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Amounts in thousands)			
Net income allocable to common shareholders	\$ 231,815	\$ 231,361	\$ 624,219	\$ 600,982
Weighted average common shares and equivalents outstanding:				
Basic weighted average common shares outstanding	172,378	171,721	172,190	171,597
Net effect of dilutive stock options - based on treasury stock method	926	1,072	908	1,054
Diluted weighted average common shares outstanding	173,304	172,793	173,098	172,651

3.Real Estate Facilities

Activity in real estate facilities is as follows:

	Nine Months Ended September 30, 2014 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	\$ 12,286,256
Capital expenditures to maintain real estate facilities	63,599
Acquisitions	255,805
Dispositions	(112)
Newly developed facilities opened for operation	59,842
Impact of foreign exchange rate changes	(357)

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Ending balance	12,665,033
Accumulated depreciation:	
Beginning balance	(4,098,814)
Depreciation expense	(286,347)
Dispositions	10
Impact of foreign exchange rate changes	192
Ending balance	(4,384,959)
Construction in process:	
Beginning balance	52,336
Current development	80,027
Newly developed facilities opened for operation	(59,842)
Ending balance	72,521
Total real estate facilities at September 30, 2014	\$ 8,352,595

During the nine months ended September 30, 2014, we acquired 31 self-storage facilities from third parties (2,238,000 net rentable square feet), for a total cost of \$276.3 million, consisting of \$271.2 million in

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cash and loan assumption of \$5.1 million. Approximately \$20.5 million of the aggregate cost was allocated to intangible assets. We completed expansion and development activities during the nine months ended September 30, 2014, adding 686,000 net rentable square feet of self-storage space, at an aggregate cost of \$59.8 million.

Construction in process at September 30, 2014 consists of projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 3.0 million net rentable square feet of storage space, for an aggregate estimated cost of approximately \$342.2 million. We received approximately \$2.6 million in disposition proceeds during the nine months ended September 30, 2014.

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):

	Investments in Unconsolidated Real Estate Entities at	
	September 30, 2014	December 31, 2013
PSB	\$ 418,007	\$ 424,538
Shurgard Europe	412,710	424,095
Other Investments	6,907	7,549
Total	\$ 837,624	\$ 856,182

Equity in Earnings of Unconsolidated Real
Estate Entities for the

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
PSB	\$ 5,513	\$ 4,861	\$ 15,165	\$ 14,147
Shurgard Europe	8,363	8,953	26,626	23,644
Other Investments	690	455	1,514	1,222
Total	\$ 14,566	\$ 14,269	\$ 43,305	\$ 39,013

During the nine months ended September 30, 2014 and 2013, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$35.5 million and \$33.8 million, respectively. At September 30, 2014, our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately \$78 million. This differential is being amortized as a reduction in equity in earnings of the Unconsolidated Real Estate Entities based upon allocations to the underlying net assets. Such amortization was approximately \$1.4 million during the nine months ended September 30, 2014.

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 42% common equity interest in PSB as of September 30, 2014 and December 31, 2013, comprised of our ownership of 7,158,354 shares of PSB's common stock, which includes 406,748 shares that we purchased in open-market transactions at an average cost of \$73.15 per share during the three months ended September 30, 2013, and 7,305,355 limited partnership units ("LP Units") in an operating partnership controlled by PSB. The LP 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 September 30, 2014 (\$76.14 per share of PSB common stock), the shares and units we owned had a market value of approximately \$1.1 billion.

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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.

	2014	2013
	(Amounts in thousands)	
For the nine months ended September 30,		
Total revenue	\$ 285,429	\$ 266,299
Costs of operations	(98,081)	(88,005)
Depreciation and amortization	(83,547)	(80,187)
General and administrative	(8,928)	(7,404)
Other items	(9,944)	(12,391)
Net income	84,929	78,312
Allocations to preferred shareholders and restricted share unitholders	(45,465)	(44,185)
Net income allocated to common shareholders and LP Unitholders	\$ 39,464	\$ 34,127
	September 30, 2014	December 31, 2013
	(Amounts in thousands)	
Total assets (primarily real estate)	\$ 2,242,010	\$ 2,238,559
Debt	250,000	250,000
Other liabilities	80,454	73,919
Equity:		
Preferred stock	995,000	995,000
Common equity and units	916,556	919,640
Investment in Shurgard Europe		

For all periods presented, we had a 49% equity investment in Shurgard Europe and our joint venture partner owns the remaining 51% interest. In addition, Shurgard Europe pays a license fee to Public Storage for the use of the "Shurgard" trademark, and in the three months ended September 30, 2014, repaid a shareholder loan (see Note 5).

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Changes in foreign currency exchange rates caused our investment in Shurgard Europe to decrease by approximately \$26.4 million and \$3.8 million during the nine months ended September 30, 2014 and 2013, respectively.

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.

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September 30, 2014

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	September 30, 2014	December 31, 2013
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(Amounts in thousands)

Total assets (primarily self-storage facilities)	\$ 1,391,628	\$ 1,468,155
Total debt to third parties	533,703	154,119
Total shareholder loan	-	428,139
Other liabilities	108,557	107,550
Equity	749,368	778,347
Exchange rate of Euro to U.S. Dollar	1.269	1.377

	2014	2013
--	------	------

(Amounts in thousands)

For the nine months ended September 30,		
Self-storage and ancillary revenues	\$ 193,079	\$ 182,688
Self-storage and ancillary cost of operations	(76,583)	(74,040)
Depreciation and amortization	(47,367)	(44,980)
General and administrative	(10,389)	(8,783)
Interest expense on third party debt	(5,702)	(3,920)
Trademark license fee payable to Public Storage	(1,933)	(1,828)
Interest expense on shareholder loan	(21,761)	(28,009)
Lease termination benefit (charge) and other (a)	1,301	(2,712)
Net income	\$ 30,645	\$ 18,416
Average exchange rates Euro to the U.S. Dollar	1.356	1.317

(a) Amounts for the nine months ended September 30, 2014 and 2013 include a \$1.3 million lease termination benefit and a \$2.8 million lease termination charge, respectively, associated with a closed facility.

As reflected in the table above, Shurgard Europe's net income has been reduced by expenses it pays to its shareholders, including a trademark license fee and interest expense on the shareholder loan. The following table set forth the calculation of our equity in earnings in Shurgard Europe:

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	2014	2013
	(Amounts in thousands)	
For the nine months ended September 30,		
Calculation of equity in earnings of Shurgard Europe:		
Our 49% share of Shurgard Europe's net income	\$ 15,016	\$ 9,024
Adjustments:		
49% of trademark license fees	947	896
49% of interest on shareholder loan	10,663	13,724
Total equity in earnings of Shurgard Europe	\$ 26,626	\$ 23,644

As indicated in the table above, 49% of the trademark license fees and interest paid by Shurgard Europe to its shareholders is included in our equity in earnings of Shurgard Europe and any remaining amount paid to us is included in "interest and other income" on our income statements. See Note 5 for further information.

Other Investments

At September 30, 2014, the "Other Investments" include an average common equity ownership of approximately 26% in various limited partnerships that collectively own 13 self-storage facilities (14 at December 31, 2013).

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 the Other Investments:

	2014	2013
	(Amounts in thousands)	

For the nine months ended September 30,

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Total revenue	\$ 10,832	\$ 10,535
Cost of operations and other expenses	(3,709)	(3,655)
Depreciation and amortization	(1,330)	(1,493)
Gain on sale of real estate investment	713	-
Net income	\$ 6,506	\$ 5,387

September December
30, 31,
2014 2013

(Amounts in
thousands)

Total assets (primarily self-storage facilities)	\$ 26,342	\$ 26,531
Total accrued and other liabilities	2,694	1,412
Total Partners' equity	23,648	25,119

5. Loan Receivable from Shurgard Europe

At December 31, 2013, we owned 100% of the shareholder loan due from Shurgard Europe, which had a balance of €311.0 million (\$428.1 million) and bore interest at 9.0% per annum. On January 28, 2014, our

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joint venture partner in Shurgard Europe acquired a 51% interest in the loan at face value for €158.6 million (\$216.2 million) in cash. In July 2014, Shurgard Europe fully repaid its €311.0 million shareholder loan. We received a total of \$204.9 million for our 49% share of the loan, based upon the foreign exchange rates at the date of repayment.

For the three and nine months ended September 30, 2014, we recorded interest income with respect to this loan of nil and approximately \$1.5 million, respectively, as compared to \$4.8 million and \$14.3 million for the three and nine months ended September 30, 2013, respectively. The reduction in amounts classified as interest and other income during the three and nine months ended September 30, 2014, as compared to the same periods in 2013, is due to the sale, on January 28, 2014 of 51% of the shareholder loan to our joint venture partner, who collected 51% of the loan interest following the sale.

Based upon our continued expectation of repayment of the loan in the foreseeable future, we reflected changes in the U.S. Dollar equivalent of the amount due us, as a result of changes in foreign exchange rates as “foreign currency exchange gain (loss)” on our income statement until repayment of the loan in full in July 2014. During July 2014, we recorded a foreign exchange loss of \$3.0 million, based upon the U.S. Dollars received in the repayment, as compared to the loan value at June 30, 2014.

We believed that the interest rate on the loan approximated the market rate for loans with similar terms, conditions, subordination features, and tenor, and that the fair value of the loan approximated book value. In our evaluation of market rates and fair value, we considered that Shurgard Europe had sufficient operating cash flow, liquidity and collateral, and we have sufficient creditor rights such that credit risk was mitigated.

6. Credit Facility, Term Loan 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 0.900% to LIBOR plus 1.500% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.900% at September 30, 2014). In addition, we are required to pay a quarterly facility fee ranging from 0.125% per annum to 0.300% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.125% per annum at September 30, 2014). At September 30, 2014 and November 4, 2014, we had no outstanding borrowings under this Credit Facility (\$50.1 million at December 31, 2013). We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$14.1 million at September 30, 2014 and \$15.1 million at December 31, 2013. The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at September 30, 2014.

On December 2, 2013, we entered into a one year \$700 million unsecured term loan (the “Term Loan”) with Wells Fargo Bank. Our outstanding borrowings under this Term Loan totaled \$700.0 million at December 31, 2013. The interest rate and covenants on the Term Loan were the same as for the Credit Facility. On September 30, 2014, we repaid the outstanding balance of the Term Loan and the Term Loan was extinguished. In connection with the Term

Loan, we incurred origination costs of \$1.9 million which were amortized over the one year period of the Term Loan using the effective interest method. As of September 30, 2014, we had no remaining unamortized loan costs (\$1.8 million as of December 31, 2013).

The carrying amounts of our notes payable at September 30, 2014 and December 31, 2013, totaled \$71.6 million and \$89.0 million, respectively, with unamortized premium totaling \$0.4 million and \$0.5 million, respectively. These notes were assumed in connection with acquisitions of real estate facilities and recorded at fair value with any premium or discount over the stated note balance amortized using the effective interest method. At September 30, 2014, the notes are secured by 39 real estate facilities with a net book value of

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approximately \$192 million, have contractual interest rates between 2.9% and 7.1%, and mature between December 2014 and September 2028.

During the nine months ended September 30, 2014, we assumed mortgage debt with an estimated fair value of \$5.1 million and market rate of 3.6% (contractual balance of \$4.8 million and contractual interest rate of 6.1%) in connection with the acquisition of a real estate facility.

At September 30, 2014, approximate principal maturities of our notes payable are as follows (amounts in thousands):

2014 (remainder)	\$ 3,986
2015	30,955
2016	16,100
2017	5,970
2018	11,077
Thereafter	3,544
	\$ 71,632

Weighted average effective rate 4.5%

Cash paid for interest totaled \$8.0 million and \$7.8 million for the nine months ended September 30, 2014 and 2013, respectively. Interest capitalized as real estate totaled \$0.8 million and \$2.4 million for the nine months ended September 30, 2014 and 2013, respectively.

7. Noncontrolling Interests

At September 30, 2014, third parties own i) interests in Subsidiaries that own an aggregate of 14 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 as the "Noncontrolling Interests." At September 30, 2014, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the Subsidiary.

During the year ended December 31, 2013, we acquired Noncontrolling Interests for \$6.2 million in cash, substantially all of which was allocated to paid-in-capital.

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8.Shareholders' Equity

Preferred Shares

At September 30, 2014 and December 31, 2013, we had the following series of Cumulative Preferred Shares ("Preferred Shares") outstanding:

Series	Earliest Redemption Date	Dividend Rate	At September 30, 2014		At December 31, 2013	
			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	20,000	500,000
Series X	3/13/2018	5.200%	9,000	225,000	9,000	225,000
Series Y	3/17/2019	6.375%	11,400	285,000	-	-
Series Z	6/4/2019	6.000%	11,500	287,500	-	-
Total Preferred Shares			165,400	\$ 4,135,000	142,500	\$ 3,562,500

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 September 30, 2014, 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 (each representing 1/1,000 of a preferred 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 nine months ended September 30, 2014, we issued an aggregate 22.9 million depositary shares, representing 1/1,000 of a share of our Series Y and Series Z Preferred Shares, at an issuance price of

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\$25.00 per depositary share, for a total of \$572.5 million in gross proceeds, and we incurred \$17.4 million in issuance costs.

During the nine months ended September 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 \$23.3 million in issuance costs.

Dividends

Common share dividends including amounts paid to our restricted share unitholders totaled \$242.0 million (\$1.40 per share) and \$215.4 million (\$1.25 per share), for the three months ended September 30, 2014 and 2013, respectively, and \$725.7 million (\$4.20 per share) and \$645.9 million (\$3.75 per share), for the nine months ended September 30, 2014 and 2013, respectively. Preferred share dividends totaled \$60.8 million and \$51.9 million for the three months ended September 30, 2014 and 2013, respectively, and \$170.9 million and \$152.4 million, for the nine months ended September 30, 2014 and 2013, respectively.

9.Related Party Transactions

The Hughes Family owns approximately 15.8