

Public Storage  
Form 10-Q  
August 05, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-33519

PUBLIC STORAGE

(Exact name of registrant as specified in its charter)

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

701 Western Avenue, Glendale, California 91201-2349  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (818) 244-8080.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer     Accelerated Filer     Non-accelerated Filer     Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

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

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PUBLIC STORAGE

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## PUBLIC STORAGE

## BALANCE SHEETS

(Amounts in thousands, except share data)

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

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

See accompanying notes.

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## PUBLIC STORAGE

## INCOME STATEMENTS

(Amounts in thousands, except per share amounts)

(Unaudited)

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



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

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

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

See accompanying notes.

## PUBLIC STORAGE

## STATEMENT OF EQUITY

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

(Unaudited)

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

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

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)  
(Unaudited)

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

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)  
(Unaudited)

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

See accompanying notes.

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

1. Description of the Business

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

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

Disclosures of the number and square footage of properties, as well as the number and coverage of tenant reinsurance policies are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States).

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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



revenues.

#### Consolidation and Equity Method of Accounting

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

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

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PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

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

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

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

Use of Estimates

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

Income Taxes

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

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

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

Real Estate Facilities

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

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

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

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PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

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

Other Assets

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

Accrued and Other Liabilities

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

Cash Equivalents and Marketable Securities

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

Fair Value Accounting

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

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

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

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

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Currency and Credit Risk

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

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

Goodwill and Other Intangible Assets

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

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

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

Evaluation of Asset Impairment

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

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

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

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

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

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

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

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

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

#### Revenue and Expense Recognition

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

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

#### Foreign Currency Exchange Translation

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



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

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Comprehensive Income (Loss)

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

Discontinued Operations

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

Net Income per Common Share

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

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

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

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## CONDENSED NOTES TO FINANCIAL STATEMENTS

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

## Recent Accounting Pronouncements and Guidance

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

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## 3. Real Estate Facilities

Activity in real estate facilities is as follows:

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

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

## 4. Investments in Unconsolidated Real Estate Entities

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

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## CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

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

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

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

## Investment in PSB

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

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

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(Unaudited)

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

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

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

## Investment in Shurgard Europe

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



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

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

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Six Months Ended  
June 30,  
2013      2012

(Amounts in  
thousands)

Our 49% equity share of:

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

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

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

2013      2012

For the six months ended June 30,

(Amounts in thousands)

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

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

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

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

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

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

## 5. Loan Receivable from Unconsolidated Real Estate Entity

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

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

#### 6. Line of Credit and Notes Payable

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

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

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

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

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

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

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

## 7. Noncontrolling Interests

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

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

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## 8. Shareholders' Equity

## Preferred Shares

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

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

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

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



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

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

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

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

Dividends

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

9. Related Party Transactions

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

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

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

10. Share-Based Compensation

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

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

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

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

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June 30, 2013

(Unaudited)

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

Stock Options

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

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

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

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

Restricted Share Units

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

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

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

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

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

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11. Segment Information

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

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

Domestic Self-Storage Segment

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

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European Self-Storage Segment

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

Commercial Segment

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

Presentation of Segment Information

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

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(Unaudited)

Three months ended June 30, 2013

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



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Three months ended June 30, 2012

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



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## CONDENSED NOTES TO FINANCIAL STATEMENTS

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(Unaudited)

Six months ended June 30, 2013

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



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## CONDENSED NOTES TO FINANCIAL STATEMENTS

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(Unaudited)

Six months ended June 30, 2012

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



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(Unaudited)

12. Commitments and Contingencies

Contingent Losses

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

Insurance and Loss Exposure

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

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

13. Subsequent Events

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

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





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

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

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

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

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

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

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

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

#### Critical Accounting Policies

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

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

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

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

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

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

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

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

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

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

#### MD&A Overview

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

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

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

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

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

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

## Results of Operations

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

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

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

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

## Funds from Operations and Core Funds from Operations

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

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

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

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

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

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

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

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

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from Core FFO:

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

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## Real Estate Operations

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

Self-Storage Operations  
Summary

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

(Dollar amounts in thousands)

## Revenues:

|                           |            |            |       |            |            |       |
|---------------------------|------------|------------|-------|------------|------------|-------|
| Same Store Facilities     | \$ 420,146 | \$ 399,725 | 5.1%  | \$ 829,750 | \$ 788,224 | 5.3%  |
| Non Same Store Facilities | 31,430     | 24,335     | 29.2% | 61,491     | 46,395     | 32.5% |
| Total rental income       | 451,576    | 424,060    | 6.5%  | 891,241    | 834,619    | 6.8%  |

## Cost of operations:

|                           |         |         |        |         |         |        |
|---------------------------|---------|---------|--------|---------|---------|--------|
| Same Store Facilities     | 122,587 | 125,126 | (2.0)% | 253,945 | 259,537 | (2.2)% |
| Non Same Store Facilities | 9,550   | 7,976   | 19.7%  | 19,185  | 15,758  | 21.7%  |
| Total cost of operations  | 132,137 | 133,102 | (0.7)% | 273,130 | 275,295 | (0.8)% |

## Net operating income (a):

|                            |         |         |       |         |         |       |
|----------------------------|---------|---------|-------|---------|---------|-------|
| Same Store Facilities      | 297,559 | 274,599 | 8.4%  | 575,805 | 528,687 | 8.9%  |
| Non Same Store Facilities  | 21,880  | 16,359  | 33.7% | 42,306  | 30,637  | 38.1% |
| Total net operating income | 319,439 | 290,958 | 9.8%  | 618,111 | 559,324 | 10.5% |

## Depreciation and amortization expense:

|                           |          |          |        |           |           |        |
|---------------------------|----------|----------|--------|-----------|-----------|--------|
| Same Store Facilities     | (76,563) | (81,273) | (5.8)% | (153,461) | (158,184) | (3.0)% |
| Non Same Store Facilities | (13,686) | (6,518)  | 110.0% | (27,090)  | (15,731)  | 72.2%  |

Total depreciation and amortization  
expense

|  |          |          |      |           |           |      |
|--|----------|----------|------|-----------|-----------|------|
|  | (90,249) | (87,791) | 2.8% | (180,551) | (173,915) | 3.8% |
|--|----------|----------|------|-----------|-----------|------|

|                  |            |            |       |            |            |       |
|------------------|------------|------------|-------|------------|------------|-------|
| Total net income | \$ 229,190 | \$ 203,167 | 12.8% | \$ 437,560 | \$ 385,409 | 13.5% |
|------------------|------------|------------|-------|------------|------------|-------|

## Number of facilities at period end:

|                           |       |       |       |
|---------------------------|-------|-------|-------|
| Same Store Facilities     | 1,949 | 1,949 | -     |
| Non Same Store Facilities | 119   | 102   | 16.7% |

Net rentable square footage at period  
end (in thousands):

|                           |         |         |       |
|---------------------------|---------|---------|-------|
| Same Store Facilities     | 122,823 | 122,823 | -     |
| Non Same Store Facilities | 9,336   | 7,754   | 20.4% |

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



## Same Store Facilities

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

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

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

|   |          |          |      |
|---|----------|----------|------|
| Annual contract rent per occupied square foot (e) | \$ 14.59 | \$ 14.28 | 2.2% |
|---|----------|----------|------|

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

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

#### Analysis of Same Store Revenue

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

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

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

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

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

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

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



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

#### Analysis of Same Store Cost of Operations

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

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

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

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

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

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

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

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

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

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

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

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

## For the Quarter Ended

|  | March 31 | June 30 | September 30 | December 31 | Entire Year |
|--|----------|---------|--------------|-------------|-------------|
|--|----------|---------|--------------|-------------|-------------|

(Amounts in thousands, except for per square foot amount)

## Total revenues:

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

## Total cost of operations:

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

## Property taxes:

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

## Repairs and maintenance:

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

Advertising and selling  
expense:

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

## REVPAF:

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

## Weighted average realized annual rent per occupied square foot:

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

Weighted average occupancy levels for  
the period:

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

## Analysis of Market Trends

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

## Same Store Facilities Operating Trends by Market

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

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

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Same Store Facilities Operating Trends by Market  
(Continued)

|  | Three Months Ended June 30, |          |        | Six Months Ended June 30, |          |        |
|--|-----------------------------|----------|--------|---------------------------|----------|--------|
|  | 2013                        | 2012     | Change | 2013                      | 2012     | Change |
| Weighted average square foot occupancy:        |                             |          |        |                           |          |        |
| Los Angeles                                    | 94.2%                       | 92.9%    | 1.4%   | 93.7%                     | 92.4%    | 1.4%   |
| San Francisco                                  | 95.0%                       | 93.7%    | 1.4%   | 94.2%                     | 93.0%    | 1.3%   |
| New York                                       | 95.4%                       | 92.7%    | 2.9%   | 94.6%                     | 92.0%    | 2.8%   |
| Chicago  | 95.0%                       | 93.1%    | 2.0%   | 93.4%                     | 92.0%    | 1.5%   |
| Washington DC                                  | 94.4%                       | 93.2%    | 1.3%   | 92.9%                     | 91.8%    | 1.2%   |
| Seattle-Tacoma                                 | 94.0%                       | 91.6%    | 2.6%   | 92.6%                     | 90.6%    | 2.2%   |
| Miami  | 93.7%                       | 92.3%    | 1.5%   | 93.3%                     | 92.1%    | 1.3%   |
| Dallas-Ft. Worth                               | 93.8%                       | 92.1%    | 1.8%   | 92.8%                     | 91.0%    | 2.0%   |
| Houston  | 93.7%                       | 91.7%    | 2.2%   | 93.0%                     | 90.7%    | 2.5%   |
| Atlanta  | 92.2%                       | 90.4%    | 2.0%   | 91.0%                     | 89.7%    | 1.4%   |
| Philadelphia                                   | 94.0%                       | 92.1%    | 2.1%   | 92.5%                     | 91.4%    | 1.2%   |
| Denver   | 96.2%                       | 95.6%    | 0.6%   | 94.8%                     | 93.2%    | 1.7%   |
| Minneapolis-St. Paul                           | 95.7%                       | 94.0%    | 1.8%   | 93.0%                     | 90.8%    | 2.4%   |
| Portland                                       | 94.8%                       | 93.4%    | 1.5%   | 93.8%                     | 91.9%    | 2.1%   |
| Orlando-Daytona                                | 93.3%                       | 91.7%    | 1.7%   | 92.8%                     | 90.8%    | 2.2%   |
| All other markets                              | 93.6%                       | 92.0%    | 1.7%   | 92.5%                     | 90.8%    | 1.9%   |
| Total weighted average occupancy               | 94.0%                       | 92.4%    | 1.7%   | 93.0%                     | 91.3%    | 1.9%   |
| Realized annual rent per occupied square foot: |                             |          |        |                           |          |        |
| Los Angeles                                    | \$ 19.76                    | \$ 19.14 | 3.2%   | \$ 19.64                  | \$ 18.98 | 3.5%   |
| San Francisco                                  | 19.65                       | 18.93    | 3.8%   | 19.54                     | 18.74    | 4.3%   |
| New York                                       | 21.44                       | 20.54    | 4.4%   | 21.43                     | 20.39    | 5.1%   |
| Chicago  | 13.37                       | 12.98    | 3.0%   | 13.38                     | 12.95    | 3.3%   |
| Washington DC                                  | 19.90                       | 19.51    | 2.0%   | 19.95                     | 19.54    | 2.1%   |
| Seattle-Tacoma                                 | 14.76                       | 14.31    | 3.1%   | 14.73                     | 14.17    | 4.0%   |
| Miami  | 16.55                       | 16.07    | 3.0%   | 16.44                     | 15.90    | 3.4%   |
| Dallas-Ft. Worth                               | 10.77                       | 10.37    | 3.9%   | 10.74                     | 10.36    | 3.7%   |
| Houston  | 11.14                       | 10.63    | 4.8%   | 11.08                     | 10.59    | 4.6%   |
| Atlanta  | 10.17                       | 9.93     | 2.4%   | 10.18                     | 9.92     | 2.6%   |
| Philadelphia                                   | 13.09                       | 13.03    | 0.5%   | 13.11                     | 13.00    | 0.8%   |
| Denver   | 12.89                       | 12.07    | 6.8%   | 12.75                     | 12.00    | 6.3%   |
| Minneapolis-St. Paul                           | 11.91                       | 11.10    | 7.3%   | 11.86                     | 11.19    | 6.0%   |
| Portland                                       | 13.92                       | 13.52    | 3.0%   | 13.89                     | 13.45    | 3.3%   |
| Orlando-Daytona                                | 10.76                       | 10.50    | 2.5%   | 10.74                     | 10.48    | 2.5%   |
| All other markets                              | 11.21                       | 10.87    | 3.1%   | 11.20                     | 10.85    | 3.2%   |
| Total realized rent per square foot            | \$ 13.85                    | \$ 13.39 | 3.4%   | \$ 13.81                  | \$ 13.35 | 3.4%   |





Same Store Facilities Operating Trends by Market  
(Continued)

|                      | Three Months Ended June 30, |          |        | Six Months Ended June 30, |          |        |
|----------------------|-----------------------------|----------|--------|---------------------------|----------|--------|
|                      | 2013                        | 2012     | Change | 2013                      | 2012     | Change |
| REVPAF:              |                             |          |        |                           |          |        |
| Los Angeles          | \$ 18.61                    | \$ 17.77 | 4.7%   | \$ 18.41                  | \$ 17.54 | 5.0%   |
| San Francisco        | 18.67                       | 17.73    | 5.3%   | 18.41                     | 17.43    | 5.6%   |
| New York             | 20.44                       | 19.03    | 7.4%   | 20.27                     | 18.76    | 8.0%   |
| Chicago              | 12.70                       | 12.09    | 5.0%   | 12.49                     | 11.91    | 4.9%   |
| Washington DC        | 18.78                       | 18.18    | 3.3%   | 18.54                     | 17.94    | 3.3%   |
| Seattle-Tacoma       | 13.87                       | 13.11    | 5.8%   | 13.64                     | 12.84    | 6.2%   |
| Miami                | 15.50                       | 14.84    | 4.4%   | 15.35                     | 14.65    | 4.8%   |
| Dallas-Ft. Worth     | 10.10                       | 9.55     | 5.8%   | 9.96                      | 9.43     | 5.6%   |
| Houston              | 10.43                       | 9.75     | 7.0%   | 10.31                     | 9.60     | 7.4%   |
| Atlanta              | 9.38                        | 8.98     | 4.5%   | 9.27                      | 8.91     | 4.0%   |
| Philadelphia         | 12.30                       | 12.01    | 2.4%   | 12.13                     | 11.89    | 2.0%   |
| Denver               | 12.40                       | 11.54    | 7.5%   | 12.09                     | 11.18    | 8.1%   |
| Minneapolis-St. Paul | 11.40                       | 10.43    | 9.3%   | 11.03                     | 10.16    | 8.6%   |
| Portland             | 13.20                       | 12.62    | 4.6%   | 13.03                     | 12.36    | 5.4%   |
| Orlando-Daytona      | 10.04                       | 9.63     | 4.3%   | 9.97                      | 9.52     | 4.7%   |
| All other markets    | 10.50                       | 9.99     | 5.1%   | 10.36                     | 9.85     | 5.2%   |
| Total REVPAF         | \$ 13.02                    | \$ 12.37 | 5.3%   | \$ 12.85                  | \$ 12.19 | 5.4%   |

We believe that our geographic diversification and scale provide some insulation from localized economic effects and add to the stability of our cash flows. It is difficult to predict localized trends in short-term self-storage demand and operating results. Over the long run, we believe that markets that experience population growth, high employment, and otherwise exhibit economic strength and consistency will outperform markets that do not exhibit these characteristics.

Non Same Store Facilities

The Non Same Store Facilities at June 30, 2013 represent 119 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2011, or that we did not own as of January 1, 2011. As a result of the stabilization process and timing of when the facilities were acquired, year-over-year changes can be significant. In the following table, "Facilities acquired in 2013" includes three facilities acquired from third parties. "Facilities acquired in 2012" includes 24 facilities acquired from third parties. "Other facilities" includes all other facilities that were not stabilized as of January 1, 2011, including three facilities that we obtained control of and began consolidating in 2012.

The following table summarizes operating data with respect to these facilities:



| NON SAME STORE FACILITIES  | Three Months Ended June 30,                               |          |            | Six Months Ended June 30, |           |          |
|--|---|----------|------------|---------------------------|-----------|----------|
|  | 2013  | 2012     | Change     | 2013                      | 2012      | Change   |
|  | (Dollar amounts in thousands, except square foot amounts) |          |            |                           |           |          |
| Rental income:   |   |          |            |                           |           |          |
| Facilities acquired in 2013                                      | \$ 337  | \$ -     | \$ 337     | \$ 377                    | \$ -      | \$ 377   |
| Facilities acquired in 2012                                      | 5,285   | 1,341    | 3,944      | 10,242                    | 1,479     | 8,763    |
| Other facilities   | 25,808  | 22,994   | 2,814      | 50,872                    | 44,916    | 5,956    |
| Total rental income  | 31,430  | 24,335   | 7,095      | 61,491                    | 46,395    | 15,096   |
| Cost of operations before depreciation and amortization expense: |   |          |            |                           |           |          |
| Facilities acquired in 2013                                      | \$ 151  | \$ -     | \$ 151     | \$ 160                    | \$ -      | \$ 160   |
| Facilities acquired in 2012                                      | 2,007   | 649      | 1,358      | 3,898                     | 698       | 3,200    |
| Other facilities   | 7,392   | 7,327    | 65         | 15,127                    | 15,060    | 67       |
| Total cost of operations   | 9,550   | 7,976    | 1,574      | 19,185                    | 15,758    | 3,427    |
| Net operating income and net income:                             |   |          |            |                           |           |          |
| Facilities acquired in 2013                                      | \$ 186  | \$ -     | \$ 186     | \$ 217                    | \$ -      | \$ 217   |
| Facilities acquired in 2012                                      | 3,278   | 692      | 2,586      | 6,344                     | 781       | 5,563    |
| Other facilities   | 18,416  | 15,667   | 2,749      | 35,745                    | 29,856    | 5,889    |
| Total net operating income (a)                                   | 21,880  | 16,359   | 5,521      | 42,306                    | 30,637    | 11,669   |
| Depreciation and amortization expense                            | (13,686)  | (6,518)  | (7,168)    | (27,090)                  | (15,731)  | (11,359) |
| Net income   | \$ 8,194  | \$ 9,841 | \$ (1,647) | \$ 15,216                 | \$ 14,906 | \$ 310   |
| At June 30:  |   |          |            |                           |           |          |
| Square foot occupancy:   |   |          |            |                           |           |          |
| Facilities acquired in 2013                                      |   |          |            | 69.0%                     | -         | -        |
| Facilities acquired in 2012                                      |   |          |            | 91.1%                     | 78.1%     | 16.6%    |
| Other facilities   |   |          |            | 90.7%                     | 88.6%     | 2.4%     |
|  |   |          |            | 90.2%                     | 87.5%     | 3.1%     |
| Annual contract rent per occupied square foot:                   |   |          |            |                           |           |          |
| Facilities acquired in 2013                                      |   |          |            | \$ 12.28                  | \$ -      | -        |
| Facilities acquired in 2012                                      |   |          |            | 12.70                     | 13.88     | (8.5)%   |
| Other facilities   |   |          |            | 15.88                     | 15.62     | 1.7%     |
|  |   |          |            | 15.14                     | 15.45     | (2.0)%   |
| Number of Facilities:  |   |          |            |                           |           |          |
| Facilities acquired in 2013                                      |   |          |            | 3                         | -         | 3        |
| Facilities acquired in 2012                                      |   |          |            | 24                        | 10        | 14       |
| Other facilities   |   |          |            | 92                        | 92        | -        |
|  |   |          |            | 119                       | 102       | 17       |
| Net rentable square feet (in thousands):                         |   |          |            |                           |           |          |

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|                             |       |       |       |
|-----------------------------|-------|-------|-------|
| Facilities acquired in 2013 | 229   | -     | 229   |
| Facilities acquired in 2012 | 1,908 | 848   | 1,060 |
| Other facilities            | 7,199 | 6,906 | 293   |
|                             | 9,336 | 7,754 | 1,582 |

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(a) See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our net income in our statements of income for the three and six months ended June 30, 2013 and 2012.

During 2012, we acquired 24 self-storage facilities from third parties for \$225.5 million, and during the first six months of 2013, we acquired three facilities from third parties for \$21.5 million. The weighted average annualized yield for the facilities acquired in 2012 (excluding one facility we acquired for \$28.5 million that is subject to significant additional development) was 6.3% during the first six months of 2013. The weighted average annualized yield with respect to the 2013 acquisitions is not meaningful due to our limited ownership period.

During the six months ended June 30, 2013, we completed expansions to existing self-storage facilities, adding 293,000 net rentable square feet of self-storage space, at an aggregate cost of \$19.9 million.

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

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

We believe that our management and operating infrastructure will result in newly acquired facilities stabilizing at a higher level of net operating income than was achieved by the previous owners. However, it can take 24 or more months for these newly acquired facilities to reach stabilization, and the ultimate levels of rent to be achieved can be affected by changes in general economic conditions. As a result, there can be no assurance that our expectations with respect to these facilities will be achieved. However, we expect the Non Same Store Facilities to continue to provide earnings growth during the remainder of 2013 as these facilities approach stabilized occupancy levels.

Equity in earnings of unconsolidated real estate entities

At June 30, 2013, we have equity investments in PSB, Shurgard Europe and various limited partnerships. We account for such investments using the equity method.

Equity in earnings of unconsolidated real estate entities for the three and six months ended June 30, 2013 and 2012 consists of our pro-rata share of the net income of these unconsolidated real estate entities for each period. The following table sets forth the significant components of equity in earnings of unconsolidated real estate entities.

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Historical summary:      Three Months Ended June 30,      Six Months Ended June 30,  
    2013            2012            Change      2013            2012            Change

(Amounts in thousands)

Equity in earnings:

|                          |           |          |          |           |           |          |
|--------------------------|-----------|----------|----------|-----------|-----------|----------|
| PSB                      | \$ 4,676  | \$ 731   | \$ 3,945 | \$ 9,286  | \$ 2,626  | \$ 6,660 |
| Shurgard Europe          | 8,024     | 7,480    | 544      | 14,691    | 14,322    | 369      |
| Other Investments        | 401       | 385      | 16       | 767       | 763       | 4        |
| Total equity in earnings | \$ 13,101 | \$ 8,596 | \$ 4,505 | \$ 24,744 | \$ 17,711 | \$ 7,033 |

Investment in PSB: At June 30, 2013, we have an approximate 41% common equity interest in PSB, comprised of our ownership of 5,801,606 shares of PSB's common stock and 7,305,355 limited partnership units in PSB's underlying operating partnership. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At June 30, 2013, PSB owned and operated 28.2 million rentable square feet of commercial space located in eight states. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB increased to \$4.7 million and \$9.3 million in the three and six months ended June 30, 2013, respectively from \$0.7 million and \$2.6 million in the same periods in 2012, respectively. These increases are due primarily to our equity share, totaling \$3.4 million and \$5.6 million during the three and six months ended June 30, 2012, respectively, of EITF D-42 charges from PSB's redemptions of preferred securities (none in 2013). See Note 4 to our June 30, 2013 financial statements for selected financial information on PSB, as well as PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, [www.psbusinessparks.com](http://www.psbusinessparks.com).

Our investment in PSB, which we plan on holding for the long-term, provides us with some diversification.

Investment in Shurgard Europe: Equity in earnings of Shurgard Europe represents our 49% equity share of Shurgard Europe's net income. At June 30, 2013, Shurgard Europe's operations are comprised of 187 wholly-owned facilities with 10.0 million net rentable square feet. Selected financial data for Shurgard Europe for the six months ended June 30, 2013 and 2012 is included in Note 4 to our June 30, 2013 financial statements. As described in more detail in Note 4, we receive interest income and trademark license fees from Shurgard Europe, of which 49% is classified as equity in earnings and the remaining 51% as interest and other income.

Equity in earnings from Shurgard Europe increased to \$8.0 million and \$14.7 million for the three and six months ended June 30, 2013, respectively, as compared to \$7.5 million and \$14.3 million during the same periods in 2012. These increases were due primarily to i) reduced interest expense on Shurgard Europe's loan payable to Wells Fargo as a result of principal reduction and lower interest rates and ii) lower depreciation expense, offset by iii) reduced property net operating income, primarily from European Same Store facilities noted below. Equity in earnings for the six months ended June 30, 2013 were also negatively impacted by lease termination costs associated with a self-storage facility in France that was closed in the six months ended June 30, 2013.

Shurgard Europe has no development pipeline and no expectations in the short-term of acquiring any facilities from third parties. Accordingly, at least in the short-term, our future earnings from Shurgard Europe will be affected

primarily by the operating results of its existing facilities, as well as the exchange rate between the U.S. Dollar and currencies in the countries Shurgard Europe conducts its business, principally the Euro.

**European Same Store Facilities:** The Shurgard Europe Same Store Pool represents the 163 facilities (8.7 million net rentable square feet, representing 86% of the aggregate net rentable square feet of Shurgard Europe's self-storage portfolio) that have been consolidated and operated by Shurgard Europe on a stabilized basis since January 1, 2011 and therefore provide meaningful comparisons for 2012 and 2013. We evaluate the performance of these facilities because Shurgard Europe's ability to effectively manage stabilized facilities represents an important measure of its ability to grow its earnings over the long-term.



The following table reflects 100% of the operating results of those 163 facilities, and we restate the exchange rates used in prior year's presentation to the actual exchange rates for the three and six months ended June 30, 2013. However, only our pro rata share of the operating results for these facilities, based upon the actual exchange rates for each period, is included in "equity in earnings of unconsolidated real estate entities" on our statements of income.

In Note 4 to our June 30, 2013 financial statements, we disclose Shurgard Europe's consolidated operating results for the three and six months ended June 30, 2013 and 2012. Shurgard Europe's consolidated operating results include 24 additional facilities that are not Same Store Facilities, and are based upon historical exchange rates rather than constant exchange rates for each of the respective periods.

Selected Operating Data for the Shurgard Europe Same Store Pool (163 facilities):

|  | Three Months Ended June 30, |           |                   | Six Months Ended June 30, |           |                   |
|--|-----------------------------|-----------|-------------------|---------------------------|-----------|-------------------|
|  | 2013                        | 2012      | Percentage Change | 2013                      | 2012      | Percentage Change |
| (Dollar amounts in thousands, except weighted average data, utilizing constant exchange rates) (a) |                             |           |                   |                           |           |                   |
| Revenues (including late charges and administrative fees)  | \$ 46,359                   | \$ 47,797 | (3.0)%            | \$ 93,342                 | \$ 95,727 | (2.5)%            |
| Less: Cost of operations (excluding depreciation and amortization expenses)                        | 20,728                      | 20,267    | 2.3%              | 40,791                    | 41,028    | (0.6)%            |
| Net operating income (b)   | \$ 25,631                   | \$ 27,530 | (6.9)%            | \$ 52,551                 | \$ 54,699 | (3.9)%            |
| Gross margin   | 55.3%                       | 57.6%     | (4.0)%            | 56.3%                     | 57.1%     | (1.4)%            |
| Weighted average for the period:   |                             |           |                   |                           |           |                   |
| Square foot occupancy (c)  | 80.2%                       | 83.4%     | (3.8)%            | 80.3%                     | 83.5%     | (3.8)%            |
| Realized annual rent, prior to late charges and administrative fees, per:                          |                             |           |                   |                           |           |                   |
| Occupied square foot (d)   | \$ 26.23                    | \$ 26.00  | 0.9%              | \$ 26.40                  | \$ 26.03  | 1.4%              |
| Available square foot ("REVPAF") (d)   | \$ 21.03                    | \$ 21.69  | (3.0)%            | \$ 21.20                  | \$ 21.73  | (2.4)%            |
| Average Euro to the U.S. Dollar for the period (a):  |                             |           |                   |                           |           |                   |
| Constant exchange rates used herein  | 1.305                       | 1.305     | -                 | 1.313                     | 1.313     | -                 |
| Actual historical exchange rates   | 1.305                       | 1.284     | 1.6%              | 1.313                     | 1.297     | 1.2%              |

(a) In order to isolate changes in the underlying operations from the impact of exchange rates, the amounts in this table are presented on a constant exchange rate basis. The amounts for the three and six months ended June 30, 2012 have been restated using the actual exchange rates for the three and six months ended June 30, 2013.

(b) We present Shurgard Europe's same-store net operating income or "NOI," which is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation and amortization expense. We believe that NOI is a meaningful measure of operating performance, because we utilize NOI in making decisions with respect to capital allocations, in determining current property values, in evaluating property performance and in comparing period-to-period and market-to-market property operating results. In addition, we believe the investment community utilizes NOI in determining operating performance and real estate values, and does not consider depreciation expense because it is based upon historical cost. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating Shurgard Europe's operating results.

(c) Square foot occupancies represent weighted average occupancy levels over the entire period.

(d) Realized annual rent per occupied square foot is computed by dividing annualized rental income, before late charges and administrative fees, by the weighted average occupied square feet for the period. Realized annual rent per available square foot ("REVPAF") is computed by dividing annualized rental income, before late charges and administrative fees, by the total available net rentable square feet for the period. These measures exclude late charges and administrative fees in order to provide a better measure of our ongoing level of revenue. Late charges are dependent upon the level of delinquency, and administrative fees are dependent upon the level of move-ins. In addition, the rates charged for late

charges and administrative fees can vary independently from rental rates. These measures take into consideration promotional discounts, which reduce rental income.

Net operating income decreased 6.9% and 3.9% for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012, due to reductions of 3.0% and 2.5%, respectively, in rental income, and an increase of 2.3%, with respect to the three month periods, in costs of operations. Revenue for the United Kingdom was reduced \$0.7 million (11.2%) and \$1.4 million (10.7%) for the three and six month periods, respectively, due to the imposition of a 20% value-added tax on rental revenues effective November 1, 2012 which reduced our realized rents to new and existing customers. Based upon current operating trends and metrics, we expect Shurgard Europe's Same Store Facilities to experience a year over year reduction in revenues during the remainder of 2013.

See "Liquidity and Capital Resources – Shurgard Europe" for additional information on Shurgard Europe's liquidity.

**Other Investments:** The "Other Investments" at June 30, 2013 are comprised primarily of our equity in earnings from various limited partnerships that own an aggregate of 14 self-storage facilities (792,000 net rentable square feet). Our future earnings with respect to the Other Investments will be dependent upon the operating results of the facilities these entities own. See Note 4 to our June 30, 2013 financial statements under the "Other Investments" for the operating results of these entities.

#### Ancillary Operations

Ancillary revenues and expenses include amounts associated with (i) the reinsurance of policies against losses to goods stored by tenants in our self-storage facilities in the U.S., (ii) merchandise sales, (iii) commercial property operations and (iv) management of 42 facilities owned by third parties and the Unconsolidated Real Estate Entities.

Commercial property operations are included in our commercial segment and all other ancillary revenues and costs of operations are not allocated to any segment. See Note 11 to our June 30, 2013 financial statements for further information regarding our segments and for a reconciliation of these ancillary revenues and cost of operations to our net income.

The following table sets forth our ancillary operations as presented on our income statements:

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|                               | Three Months Ended June 30, |           |          | Six Months Ended June 30, |           |          |
|-------------------------------|-----------------------------|-----------|----------|---------------------------|-----------|----------|
|                               | 2013                        | 2012      | Change   | 2013                      | 2012      | Change   |
| (Amounts in thousands)        |                             |           |          |                           |           |          |
| Ancillary Revenues:           |                             |           |          |                           |           |          |
| Tenant reinsurance premiums   | \$ 21,162                   | \$ 19,423 | \$ 1,739 | \$ 41,399                 | \$ 38,015 | \$ 3,384 |
| Commercial                    | 3,491                       | 3,638     | (147)    | 7,024                     | 7,139     | (115)    |
| Merchandise and other         | 9,149                       | 8,672     | 477      | 16,614                    | 15,855    | 759      |
| Total revenues                | 33,802                      | 31,733    | 2,069    | 65,037                    | 61,009    | 4,028    |
| Ancillary Cost of Operations: |                             |           |          |                           |           |          |
| Tenant reinsurance            | 3,767                       | 3,316     | 451      | 7,469                     | 6,849     | 620      |
| Commercial                    | 1,319                       | 1,216     | 103      | 2,629                     | 2,520     | 109      |
| Merchandise and other         | 5,348                       | 5,249     | 99       | 9,732                     | 9,930     | (198)    |
| Total cost of operations      | 10,434                      | 9,781     | 653      | 19,830                    | 19,299    | 531      |
| Commercial depreciation       | 688                         | 683       | 5        | 1,387                     | 1,383     | 4        |
| Ancillary net income:         |                             |           |          |                           |           |          |
| Tenant reinsurance            | 17,395                      | 16,107    | 1,288    | 33,930                    | 31,166    | 2,764    |
| Commercial                    | 1,484                       | 1,739     | (255)    | 3,008                     | 3,236     | (228)    |
| Merchandise and other         | 3,801                       | 3,423     | 378      | 6,882                     | 5,925     | 957      |
| Total ancillary net income    | \$ 22,680                   | \$ 21,269 | \$ 1,411 | \$ 43,820                 | \$ 40,327 | \$ 3,493 |

Tenant reinsurance operations: We reinsure policies offered through a non-affiliated insurance company against losses to goods stored by tenants in the domestic self-storage facilities we operate. The level of tenant reinsurance revenues is largely dependent upon the level of premiums charged for such insurance and the number of tenants that participate in the insurance program. Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. These costs are dependent primarily upon the level of losses incurred, including the level of catastrophic events, such as hurricanes, that occur and affect our properties thereby increasing tenant insurance claims.

The increase in tenant insurance revenues in the three and six months ended June 30, 2013, as compared to the same periods in 2012, was due primarily to (i) an increase in the number of tenants participating in the insurance program, due to a larger tenant base combined with a higher participation level, and (ii) an increase in average premium rates. On average, approximately 65%, and 64% of our tenants had such policies during the three and six months ended June 30, 2013, as compared to 63% for each of the same periods in 2012. We expect less growth in the percentage of tenants with insurance policies, and approximately flat premium rates, in the remainder of 2013 as compared to the growth experienced in the first six months of 2013.

Commercial operations: We also operate commercial facilities, primarily the leasing of small retail storefronts and office space located on or near our existing self-storage facilities. We do not expect any significant changes in revenues or profitability from our commercial operations.

Merchandise sales and other: We sell locks, boxes, and packing supplies at our self-storage facilities, and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. During the three and six months ended June 30, 2013 as compared to the same periods in 2012, merchandise sales and margins improved primarily as a result of higher retail prices for our locks, combined with higher sales volumes for other products. These amounts include, to a much lesser extent, the results of our management of 42 self-storage facilities in the U.S. for third party owners and other partnerships that we account for on the equity method.

## Other Income and Expense Items

Interest and other income: Interest and other income was \$5.5 million and \$11.1 million in the three and six months ended June 30, 2013, as compared to \$5.5 million and \$11.2 million for the same periods in 2012. Interest and other income primarily includes interest income on loans receivable from Shurgard Europe, as well as trademark license fees received from Shurgard Europe for the use of the “Shurgard” trade name. We record 51% of the aggregate interest income and trademark license fees as interest and other income, while the remaining 49% is presented as additional equity in earnings on our statements of income.

Interest and other income received from Shurgard Europe was \$5.0 million and \$10.1 million in the three and six months ended June 30, 2013, as compared to \$5.0 million and \$10.0 million for the same periods in 2012.

The loan receivable from Shurgard Europe is denominated in Euros, has a balance of €311.0 million (\$404.5 million) as of June 30, 2013, and matures in February 2015. Future interest income recorded in connection with this loan will be dependent upon the average outstanding balance as well as the exchange rate of the Euro versus the U.S. Dollar. All such interest has been paid currently when due and we expect the interest to continue to be paid when due with Shurgard Europe’s operating cash flow. The terms of a loan payable by Shurgard Europe to a bank, with a principal amount of €127.0 million at June 30, 2013, requires significant principal repayments through the maturity date in November 2014. As a result, in the year ended December 31, 2012 and the six months ended June 30, 2013, there were no principal repayments on our loan, and future principal repayments on our loan will be limited (except as noted below regarding a potential refinancing) until the bank loan is repaid.

Shurgard Europe is considering refinancing all or a portion of the amount owed to us which, when and if consummated, would result in reduced interest income.

The remainder of our interest and other income is comprised primarily of interest earned on cash balances as well as sundry other income items that are received from time to time in varying amounts. Interest income on cash balances has been minimal, because rates have been at historic lows of 0.1% or less, and we expect this trend to continue in the foreseeable future. Future earnings from sundry other income items are not predictable.

Depreciation and amortization: Depreciation and amortization increased to \$90.9 million and \$181.9 million for the three and six months ended June 30, 2013, as compared to \$88.5 million and \$175.3 million in the same periods in 2012, due principally to newly acquired facilities. The level of future depreciation and amortization will primarily depend upon the level of acquisitions of facilities and the level of capital expenditures we incur on our facilities.

General and administrative expense: The following table sets forth our general and administrative expense:

|                                  | Three Months Ended June 30, |          |          | Six Months Ended June 30, |           |          |
|----------------------------------|-----------------------------|----------|----------|---------------------------|-----------|----------|
|                                  | 2013                        | 2012     | Change   | 2013                      | 2012      | Change   |
|                                  | (Amounts in thousands)      |          |          |                           |           |          |
| Share-based compensation expense | \$ 7,005                    | \$ 5,978 | \$ 1,027 | \$ 12,899                 | \$ 11,283 | \$ 1,616 |
| Costs of senior executives       | 416                         | 416      | -        | 4,473                     | 3,900     | 573      |

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|                                      |           |           |          |           |           |          |
|--------------------------------------|-----------|-----------|----------|-----------|-----------|----------|
| Development and acquisition overhead | 1,276     | 953       | 323      | 3,011     | 3,466     | (455)    |
| Tax compliance costs and taxes paid  | 1,111     | 1,089     | 22       | 2,392     | 2,600     | (208)    |
| Legal costs                          | 641       | 467       | 174      | 2,122     | 1,999     | 123      |
| Public company costs                 | 751       | 707       | 44       | 1,670     | 1,517     | 153      |
| Other costs                          | 2,885     | 2,804     | 81       | 5,771     | 4,054     | 1,717    |
| Total                                | \$ 14,085 | \$ 12,414 | \$ 1,671 | \$ 32,338 | \$ 28,819 | \$ 3,519 |

Share-based compensation expense includes the amortization of restricted share units (“RSUs”) and stock options granted to employees, as well as employer taxes incurred upon vesting of RSUs and upon exercise of

employee stock options. The level of share-based compensation expense varies based upon the level of grants and forfeitures. Share-based compensation cost increased \$1.0 million and \$1.6 million in the three and six months ended June 30, 2013 as compared to the same periods in 2012, due primarily to additional share-based grants. We expect share-based compensation expense to increase in the remainder of 2013 as compared to the same periods in 2012, at a rate similar to that experienced in the three months ended June 30, 2013. See Note 10 to our June 30, 2013 financial statements for further information on our share-based compensation.

Costs of senior executives represent the cash compensation paid to our chief executive officer and chief financial officer. The increase in the six months ended June 30, 2013 as compared to the same periods in 2012 is due to an increase in incentive compensation.

Development and acquisition overhead represents the internal and external expenses of identifying, evaluating, and implementing our acquisition and development activities and varies primarily based upon the level of development and acquisition activities undertaken. Incremental legal, transfer tax, and other related costs of approximately \$0.1 million and \$0.2 million were incurred in connection with the acquisition of real estate facilities in the three and six months ended June 30, 2013 as compared to \$0.1 million and \$0.9 million in the same periods in 2012. We expect an increase in ongoing development and acquisition overhead in the remainder of 2013 due to the expansion of our development and acquisition activities. Subsequent to June 30, 2013, we completed approximately \$101 million in acquisitions, and have another \$273 million currently under contract. Any further costs to be incurred in the remainder of 2013 will depend upon the level of future acquisition activities, which is not determinable.

Tax compliance costs and taxes paid include taxes paid to various state and local authorities, the internal and external costs of filing tax returns, costs associated with complying with federal and state tax laws, and maintaining our compliance with Internal Revenue Service REIT rules. Such costs vary primarily based upon the tax rates of the various states in which we do business.

Legal costs include internal personnel as well as fees paid to legal firms and other third parties with respect to general corporate legal matters and risk management, and varies based upon the level of litigation.

Public company costs represent the incremental costs of operating as a publicly-traded company, such as internal and external investor relations expenses, stock listing and transfer agent fees, board of directors' costs, and costs associated with maintaining compliance with applicable laws and regulations, including the Sarbanes-Oxley Act.

Other costs increased in the six months ended June 30, 2013 due primarily to an increase in employee termination costs.

Our future general and administrative expenses are difficult to estimate, due to their dependence upon many factors, including those noted above.

Interest expense: Interest expense was \$0.6 million and \$4.1 million for the three and six months ended June 30, 2013 as compared to \$5.1 million and \$10.4 million for the same periods in 2012.

The decrease in the three and six months ended June 30, 2013 as compared to the same periods in 2012, is due primarily to principal repayments on our mortgage debt and repayment of our senior unsecured notes, combined with increases of \$1.0 million and \$1.5 million in capitalized interest in the three and six months ended June 30, 2013 associated with our development activities. See Note 6 to our June 30, 2013 financial statements for a schedule of our notes payable balances, principal repayment requirements, and average interest rates. We expect that a majority of our interest expense in the remainder of 2013 will be capitalized as real estate costs.



Foreign Exchange Gain (Loss): We recorded a foreign currency translation gain of \$5.9 million and a foreign currency translation loss of \$6.8 million in the three and six months ended June 30, 2013, respectively, as compared to losses of \$23.7 million and \$11.5 million for the same periods in 2012, respectively, representing primarily the change in the U.S. Dollar equivalent of our Euro-based loan receivable from Shurgard Europe due to

fluctuations in exchange rates. We have not entered into any agreements to mitigate the impact of currency exchange fluctuations between the U.S. Dollar and the Euro, therefore the amount of U.S. Dollars we will receive on repayment will depend upon the currency exchange rates at that time. We record the exchange gains or losses into net income each period because of our continued expectation of repayment of the loan in the foreseeable future. The U.S. Dollar exchange rate relative to the Euro was approximately 1.301, 1.282 and 1.322 at June 30, 2013, March 31, 2013 and December 31, 2012, respectively.

Future foreign exchange gains or losses will be dependent primarily upon the movement of the Euro relative to the U.S. Dollar, the amount owed from Shurgard Europe and our continued expectation of collecting the principal on the loan in the foreseeable future. Shurgard Europe is considering refinancing all or a portion of the amounts owed to us which, when and if completed, would result in reduced foreign exchange gains and losses.

Net Income Allocable to Preferred Shareholders: Allocations of net income to our preferred shareholders generally consists of allocations (i) based on distributions and (ii) in applying EITF D-42 when we redeem preferred shares. During 2012, we redeemed certain existing series of preferred shares and issued additional preferred shares at lower coupon rates. Net income allocable to preferred shareholders in applying EITF D-42 decreased \$13.4 million and \$38.3 million in the three and six months ended June 30, 2013, as compared to the same periods in 2012, due to a decrease in preferred share redemption activities. Net income allocable to preferred shareholders associated with distributions decreased during the three and six months ended June 30, 2013, as compared to the same periods in 2012, due primarily to lower average dividend rates and lower average outstanding preferred shares. Based upon our preferred shares outstanding at June 30, 2013, our quarterly distribution to our preferred shareholders is expected to be approximately \$51.9 million.

#### Net Operating Income

In our discussions above, we refer to net operating income or “NOI,” which is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation and amortization expense. We believe that NOI is a meaningful measure of operating performance, because we utilize NOI in making decisions with respect to capital allocations, in determining current property values, in evaluating property performance and in comparing period-to-period and market-to-market property operating results. In addition, we believe the investment community utilizes NOI in determining operating performance and real estate values, and does not consider depreciation expense because it is based upon historical cost. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating our operating results. The following table reconciles NOI generated by our self-storage facilities to our operating income:

|  | Three Months Ended<br>June 30, |            | Six Months Ended June<br>30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2013                           | 2012       | 2013                         | 2012       |
|  | (Amounts in thousands)         |            |                              |            |
| Self-storage net operating income:       |                                |            |                              |            |
| Same Store Facilities                    | \$ 297,559                     | \$ 274,599 | \$ 575,805                   | \$ 528,687 |
| Non Same Store Facilities                | 21,880                         | 16,359     | 42,306                       | 30,637     |
|  | 319,439                        | 290,958    | 618,111                      | 559,324    |
| Self-storage depreciation expense:       |                                |            |                              |            |
| Same Store Facilities                    | (76,563)                       | (81,273)   | (153,461)                    | (158,184)  |
| Non Same Store Facilities                | (13,686)                       | (6,518)    | (27,090)                     | (15,731)   |
|  | (90,249)                       | (87,791)   | (180,551)                    | (173,915)  |
| Self-storage net income:                 |                                |            |                              |            |
| Same Store Facilities                    | 220,996                        | 193,326    | 422,344                      | 370,503    |
| Non Same Store Facilities                | 8,194                          | 9,841      | 15,216                       | 14,906     |
| Total net income from self-storage       | 229,190                        | 203,167    | 437,560                      | 385,409    |
| Ancillary operating revenue              | 33,802                         | 31,733     | 65,037                       | 61,009     |
| Ancillary cost of operations             | (10,434)                       | (9,781)    | (19,830)                     | (19,299)   |
| Commercial depreciation and amortization | (688)                          | (683)      | (1,387)                      | (1,383)    |
| General and administrative expenses      | (14,085)                       | (12,414)   | (32,338)                     | (28,819)   |
| Operating income                         | \$ 237,785                     | \$ 212,022 | \$ 449,042                   | \$ 396,917 |

## Liquidity and Capital Resources

We believe that our cash balances and net cash provided by our operating activities will continue to be sufficient to enable us to meet our operating expenses, debt service, capital improvements and distribution requirements to our shareholders for the foreseeable future.

Our financial profile is characterized by a low level of debt-to-total-capitalization. We expect to fund our long-term growth strategies and debt obligations with (i) retained operating cash flows, (ii) depending upon market conditions, proceeds from the issuance of common or preferred equity, and (iii) in the case of acquisitions of facilities, the assumption of existing debt. In general, our strategy is to continue to finance our growth with permanent capital, either retained operating cash flow or capital raised through the issuance of common or preferred equity to the extent that market conditions are favorable.

We have elected to use predominantly preferred securities in our capital structure as a form of leverage despite the fact that the dividend rates of our preferred securities exceed the prevailing market interest rates on conventional debt. We have chosen this method of financing for the following reasons: (i) under the REIT structure, a significant amount of operating cash flow needs to be distributed to our shareholders, making it difficult to repay debt with operating cash flow alone, (ii) our perpetual preferred shares have no sinking fund requirement or maturity date and do not require redemption, all of which eliminate future refinancing risks, (iii) after the end of a non-call period, we have the option to redeem the preferred shares at any time, which enables us to refinance higher coupon preferred shares with new preferred shares at lower rates if appropriate, (iv) preferred shares do not contain covenants, thus allowing us to maintain significant financial flexibility, and (v) dividends on the preferred shares can be applied to satisfy our REIT distribution requirements.

Our credit ratings on each of our series of preferred shares are “A3” by Moody’s, “BBB+” by Standard & Poor’s and “A+” by Fitch Ratings. In recent years, we have been one of the largest and most frequent issuers of preferred equity in the U.S.

**Summary of Current Cash Balances and Short-term Capital Commitments:** At June 30, 2013, cash and cash equivalents totaled \$410.9 million. Short-term (through December 31, 2013) capital commitments include the following: (i) during the three months ending September 30, 2013, we expect to complete the acquisition of 29 self-storage facilities at a total cost of approximately \$374 million in cash. A total of \$101 million of these acquisitions have been completed as of August 2, 2013, while the remainder is under contract and subject to customary closing conditions, (ii) we have \$30 million in scheduled principal repayments in the remainder of 2013 and (iii) we have remaining commitments on development projects of approximately \$124 million, of which approximately \$50 million we expect to incur in the second half of 2013. We have no other significant commitments during the remainder of 2013, however, we expect to expand our development and acquisition activities which may increase our short-term capital commitments significantly.

We expect to fund our capital commitments with cash on hand at June 30, 2013, retained operating cash flow, and, to the extent such resources are insufficient, we would seek to raise additional capital through the issuance of either common or preferred equity. We may also use borrowings on our revolving line of credit as a short-term bridge to finance our commitments until we are able to finance with permanent capital.

Access to Additional Capital: We have a revolving line of credit for borrowings up to \$300 million which expires March 21, 2017, with no outstanding borrowings at August 2, 2013. We seldom borrow on the line of credit and generally view borrowings on the line as a means to bridge capital needs until we are able to refinance them with permanent capital. When seeking capital, we select the lowest-cost form of permanent capital. For at least the last ten years, we have raised cash proceeds for growth and other corporate purposes primarily through the issuance of preferred securities.

During periods of favorable market conditions, we have generally been able to raise capital from the issuance of preferred securities at attractive coupon rates. During the six months ended June 30, 2013 and the year ended December 31, 2012 we issued approximately \$725.0 million and \$1.7 billion, respectively, of preferred securities. The net proceeds from these issuances were generally used to fund the redemptions of higher rate

preferred securities and thus lower our cost of capital with respect to our overall outstanding preferred securities.

While the coupon rates on our issuances in 2013 were 5.2%, we believe that current market coupon rates for our preferred securities are currently higher at approximately 6%. If long-term interest rates increase in the future, it is likely that market coupon rates for our preferred securities will also increase.

Debt Service Requirements: As of June 30, 2013, our outstanding debt totaled approximately \$111.7 million. Approximate principal maturities of our debt are as follows (amounts in thousands):

|                  |            |
|------------------|------------|
| 2013 (remainder) | \$ 30,465  |
| 2014             | 35,127     |
| 2015             | 30,009     |
| 2016             | 10,065     |
| 2017             | 1,003      |
| Thereafter       | 5,019      |
|                  | \$ 111,688 |

Our remaining debt maturities are nominal compared to our annual cash from operations available for debt repayment. We intend to repay the debt at maturity and not seek to refinance it with additional debt.

Our portfolio of real estate facilities is substantially unencumbered. At June 30, 2013, we have 2,015 self-storage facilities with an aggregate net book value of approximately \$7.0 billion that are unencumbered.

Capital Expenditure Requirements: Capital expenditures include major repairs or replacements to elements of our facilities, which keep the facilities in good operating condition and maintain their visual appeal to the customer. Capital improvements do not include costs relating to the development of new facilities or the expansion of net rentable square footage of existing facilities. We incurred capital expenditures to maintain our facilities totaling \$32.8 million during the six months ended June 30, 2013. For the year ending December 31, 2013, we expect to incur approximately \$74 million in such expenditures, and expect to fund such expenditures with operating cash flow. For the last three years, such capital expenditures have ranged between approximately \$0.55 and \$0.60 per net rentable square foot per year.

Requirement to Pay Distributions: For all periods presented herein, we have elected to be treated as a REIT, as defined in the Internal Revenue Code. As a REIT, we do not incur federal income tax on our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we have met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

Aggregate REIT qualifying distributions paid during the six months ended June 30, 2013 totaled \$531.0 million, consisting of \$100.5 million to preferred shareholders and \$430.5 million to common shareholders and restricted share unitholders.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at June 30, 2013 to be approximately \$207.6 million per year.

On August 1, 2013, our Board of Trustees declared a regular common quarterly dividend of \$1.25 per common share. Our consistent, long-term dividend policy has been to distribute only our taxable income. Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with operating cash flow.

We are obligated to pay distributions to noncontrolling interests in our consolidated subsidiaries based upon the available operating cash flows of the respective subsidiary. We estimate annual distributions of approximately \$6.5 million with respect to such noncontrolling interests outstanding at June 30, 2013.

Acquisition and Development Activities: During the three months ending September 30, 2013, we expect to complete the acquisition of 29 self-storage facilities (21 in Florida, five in Massachusetts, two in California, and one in Rhode Island), with an aggregate of approximately 2.3 million in net rentable square feet, at a total cost of approximately \$374 million in cash. A total of \$101 million of these acquisitions have been completed as of August 2, 2013, while the remainder is under contract and subject to customary closing conditions. During the remainder of 2013, we will continue to seek to acquire self-storage facilities from third parties; however, it is difficult to estimate the amount of third party acquisitions we will undertake.

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

As mentioned above, we expect to finance our acquisition and development activities with cash on hand, retained operating cash flow and, if necessary, proceeds from the issuance of equity securities.

Shurgard Europe: We have a 49% interest in Shurgard Europe and our institutional partner owns the remaining 51% interest. As of June 30, 2013, Shurgard Europe had two loans outstanding; (i) €127.0 million due to a bank and (ii) €311.0 million due to Public Storage. The loan due to Public Storage (totaling \$404.5 million U.S Dollars) bears interest at a fixed rate of 9.0% per annum, has no required principal payments until maturity on February 15, 2015, but can be prepaid in part or in full at any time without penalty. This loan is denominated in Euros and is translated to U.S. Dollars for financial statement purposes.

The bank loan requires significant principal reduction through the maturity date in November 2014. As a result, in the six months ended June 30, 2013, there were no principal repayments on our loan, and future principal repayments on our loan will be limited until the bank loan is repaid. Further, consistent with prior years, we do not expect to receive cash distributions from Shurgard Europe with respect to our 49% equity interest for the foreseeable future.

Shurgard Europe is considering refinancing all or a portion of the amounts owed to us which, if and when consummated, will provide us with additional capital.

Redemption of Preferred Securities: We have no series of preferred shares that are redeemable before April 2015 and none of our preferred securities are redeemable at the option of the holders.

Repurchases of Company's Common Shares: Our Board of Trustees has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During the six months ended June 30, 2013, we did not repurchase any of our common shares. From the inception of the repurchase program through August 2, 2013, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.

Contractual Obligations



Our significant contractual obligations at June 30, 2013 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

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|                              | Total      | Remainder<br>of<br>2013 | 2014      | 2015      | 2016      | 2017     | Thereafter |
|------------------------------|------------|-------------------------|-----------|-----------|-----------|----------|------------|
| Long-term debt (1)           | \$ 121,050 | \$ 33,179               | \$ 38,533 | \$ 31,358 | \$ 10,851 | \$ 1,324 | \$ 5,805   |
| Operating leases (2)         | 67,679     | 2,127                   | 4,274     | 3,325     | 3,225     | 2,325    | 52,403     |
| Construction commitments (3) | 42,619     | 34,095                  | 8,524     | -         | -         | -        | -          |
| Total                        | \$ 231,348 | \$ 69,401               | \$ 51,331 | \$ 34,683 | \$ 14,076 | \$ 3,649 | \$ 58,208  |

(1) Amounts include principal and interest payments (all of which are fixed-rate) on our notes payable based on their contractual terms. See Note 6 to our June 30, 2013 financial statements for additional information on our notes payable.

(2) We lease land, equipment and office space under various operating leases. Certain leases are cancelable; however, significant penalties would be incurred upon cancellation. Amounts reflected above consider continuance of the lease without cancellation.

(3) Amounts exclude an additional \$81 million in future expected development spending that was not under contract at June 30, 2013.

During the three months ending September 30, 2013, we expect to complete the acquisition of 29 self-storage facilities at a total cost of approximately \$374 million in cash. A total of \$101 million of these acquisitions have been completed as of August 2, 2013, while the remainder is under contract and subject to customary closing conditions. These amounts were not included in the table above because contracts were not entered into or were subject to closing contingencies as of June 30, 2013.

We estimate the quarterly distribution requirements with respect to our Preferred Shares outstanding at June 30, 2013, to be approximately \$51.9 million per quarter. Dividends are paid when and if declared by our Board of Trustees and accumulate if not paid. We have no other series of preferred shares that are redeemable before April 2015 and none of our preferred securities are redeemable at the option of the holders.

Off-Balance Sheet Arrangements: At June 30, 2013, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

### ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

To limit our exposure to market risk, we are capitalized primarily with preferred and common equity. Our preferred shares are redeemable at our option generally five years after issuance, but the holder has no redemption option. Our debt is our only market-risk sensitive portion of our capital structure, which totals \$111.7 million and represents 1.3% of the book value of our equity at June 30, 2013.

We have foreign currency exposures related to our investment in Shurgard Europe, which has a book value of \$396.3 million at June 30, 2013. We also have a loan receivable from Shurgard Europe, which is denominated in Euros, totaling €311.0 million (\$404.5 million) at June 30, 2013.

The table below summarizes annual debt maturities and weighted-average interest rates on our outstanding debt at the end of each year and fair values required to evaluate our expected cash-flows under debt agreements and our sensitivity to interest rate changes at June 30, 2013 (dollar amounts in thousands).

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|                        | Remainder<br>of<br>2013 | 2014      | 2015      | 2016      | 2017     | Thereafter | Total      | Fair Value |
|------------------------|-------------------------|-----------|-----------|-----------|----------|------------|------------|------------|
| Fixed rate debt        | \$ 30,465               | \$ 35,127 | \$ 30,009 | \$ 10,065 | \$ 1,003 | \$ 5,019   | \$ 111,688 | \$ 111,688 |
| Average interest rate  | 5.87%                   | 5.35%     | 5.45%     | 5.57%     | 5.78%    | 5.69%      |            |            |
| Variable rate debt (1) | \$ -                    | \$ -      | \$ -      | \$ -      | \$ -     | \$ -       | \$ -       | \$ -       |
| Average interest rate  |                         |           |           |           |          |            |            |            |

(1) Amounts represent borrowings under our line of credit which expires in March 2017. As of June 30, 2013, we have no borrowings under our line of credit.

ITEM 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file and submit under the Securities Exchange Act of 1934, as amended, ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in accordance with SEC guidelines and that such information is communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures in reaching that level of reasonable assurance. We also have investments in certain unconsolidated entities and because we do not control these entities, our disclosure controls and procedures with respect to such entities are substantially more limited than those we maintain with respect to our consolidated subsidiaries.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level.

Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the heading "Contingent Losses" in Note 12 to the Financial Statements in this Form 10-Q is incorporated by reference in this Item 1.

Item 1A. Risk Factors

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K filed for the year ended December 31, 2012, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results and could cause our actual results to differ materially from expectations. In addition, in considering the forward-looking statements contained in this Form 10-Q and elsewhere, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Part I, Item 2 of this Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Common Share Repurchases

Our Board of Trustees has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During the six months ended June 30, 2013, we did not repurchase any of our common shares. From the inception of the repurchase program through August 2, 2013, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of June 30, 2013. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.

Preferred Share Redemptions

We had no preferred redemptions during the three months ended June 30, 2013.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the attached Exhibit Index which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: August 2, 2013

PUBLIC STORAGE

By: /s/ John Reyes  
John Reyes  
Senior Vice President and Chief Financial Officer  
(Principal financial officer and duly authorized officer)

PUBLIC STORAGE

INDEX TO EXHIBITS (1)

(Items 15(a)(3) and 15(c))

- 3.1 Articles of Amendment and Restatement of Declaration of Trust of Public Storage, a Maryland real estate investment trust. Filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated by reference herein.
- 3.2 Bylaws of Public Storage, a Maryland real estate investment trust. Filed with the Registrant's Current Report on Form 8-K dated May 11, 2010 and incorporated by reference herein.
- 3.3 Articles Supplementary for Public Storage 6.875% Cumulative Preferred Shares, Series O. Filed with the Registrant's Current Report on Form 8-K dated April 8, 2010 and incorporated by reference herein.
- 3.4 Articles Supplementary for Public Storage 6.500% Cumulative Preferred Shares, Series P. Filed with the Registrant's Current Report on Form 8-K dated October 6, 2010 and incorporated by reference herein.
- 3.5 Articles Supplementary for Public Storage 6.5% Cumulative Preferred Shares, Series Q. Filed with the Registrant's Current Report on Form 8-K dated May 2, 2011 and incorporated by reference herein.
- 3.6 Articles Supplementary for Public Storage 6.35% Cumulative Preferred Shares, Series R. Filed with the Registrant's Current Report on Form 8-K dated July 20, 2011 and incorporated by reference herein.
- 3.7 Articles Supplementary for Public Storage 5.900% Cumulative Preferred Shares, Series S. Filed with the Registrant's Current Report on Form 8-K dated January 9, 2012 and incorporated by reference herein.
- 3.8 Articles Supplementary for Public Storage 5.750% Cumulative Preferred Shares, Series T. Filed with the Registrant's Current Report on Form 8-K dated March 7, 2012 and incorporated by reference herein.
- 3.9 Articles Supplementary for Public Storage 5.625% Cumulative Preferred Shares, Series U. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2012 and incorporated by reference herein.
- 3.10 Articles Supplementary for Public Storage 5.375% Cumulative Preferred Shares, Series V. Filed with the Registrant's Current Report on Form 8-K dated September 11, 2012 and incorporated by reference herein.
- 3.11 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series W. Filed with the Registrant's Current Report on Form 8-K dated January 8, 2013 and incorporated by reference herein.
- 3.12 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series X. Filed with the Registrant's Current Report on Form 8-K dated March 5, 2013 and incorporated by reference herein.
- 4.1 Master Deposit Agreement, dated as of May 31, 2007. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.

10.1



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Amended Management Agreement between Registrant and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with Public Storage Inc.'s ("PSI") Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-0839) and incorporated herein by reference.

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- 10.2 Second Amended and Restated Management Agreement by and among Registrant and the entities listed therein dated as of November 16, 1995. Filed with PS Partners, Ltd.'s Annual Report on Form 10-K for the year ended December 31, 1996 (SEC File No. 001-11186) and incorporated herein by reference.
- 10.3 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with PS Business Parks, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.4 Amended and Restated Agreement of Limited Partnership of Storage Trust Properties, L.P. (March 12, 1999). Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.5 Amended and Restated Credit Agreement by and among Registrant, Wells Fargo Securities, LLC and Merrill Lynch, Pierce Fenner & Smith Incorporated as joint lead arrangers, Wells Fargo Bank, National Association, as administrative agent, and the other financial institutions party thereto, dated as of March 21, 2012. Filed with PSI's Current Report on Form 8-K on March 27, 2012 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.6\* Post-Retirement Agreement between Registrant and B. Wayne Hughes dated as of March 11, 2004. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 and incorporated herein by reference.
- 10.7\* Shurgard Storage Centers, Inc. 2004 Long Term Incentive Compensation Plan. Filed as Appendix A of Definitive Proxy Statement dated June 7, 2004 filed by Shurgard (SEC File No. 001-11455) and incorporated herein by reference.
- 10.8\* Public Storage, Inc. 2001 Stock Option and Incentive Plan ("2001 Plan"). Filed with PSI's Registration Statement on Form S-8 (SEC File No. 333-59218) and incorporated herein by reference.
- 10.9\* Form of 2001 Plan Non-qualified Stock Option Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.10\* Form of 2001 Plan Restricted Share Unit Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.11\* Form of 2001 Plan Non-Qualified Outside Director Stock Option Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.12\* Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan. Filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-8 (SEC File No. 333-144907) and incorporated herein by reference.
- 10.13\* Form of 2007 Plan Restricted Stock Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference.
- 10.14\*

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Form of 2007 Plan Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference.

10.15\* Form of Indemnity Agreement. Filed with Registrant's Amendment No. 1 to Registration Statement on Form S-4 (SEC File No. 333-141448) and incorporated herein by reference.

- 10.16\* Amendment to Form of Trustee Stock Option Agreement. Filed as Exhibit 10.30 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.
- 10.17\* Revised Form of Trustee Stock Option Agreement. Filed as Exhibit 10.31 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.
- 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. Filed herewith.
- 31.1 Rule 13a – 14(a) Certification. Filed herewith.
- 31.2 Rule 13a – 14(a) Certification. Filed herewith.
- 32 Section 1350 Certifications. Filed herewith.
- 101 .INS XBRL Instance Document. Filed herewith.
- 101 XBRL Taxonomy Extension Schema. Filed herewith.  
.SCH
- 101 XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.  
.CAL
- 101 .DEFXBRL Taxonomy Extension Definition Linkbase. Filed herewith.
- 101 XBRL Taxonomy Extension Label Linkbase. Filed herewith.  
.LAB
- 101 .PREXBRL Taxonomy Extension Presentation Link. Filed herewith.
- (1) SEC File No. 001-33519 unless otherwise indicated.
- \* Denotes management compensatory plan agreement or arrangement.

