Public Storage
Form 10-Q
August 09, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from to .

Commission File Number: 001-33519

PUBLIC STORAGE

(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (818) 244-8080.

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

Large Accelerated Filer [X] Accelerated Filer [ ] Non-accelerated Filer [ ]
Smaller Reporting Company [ ]

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

[ ] Yes [X] No

Indicate the number of the registrant’s outstanding common shares of beneficial interest, as of August 4, 2010:

Common Shares of beneficial interest, $.10 par value per share – 170,109,887 shares

PUBLIC STORAGE
INDEX

PUBLIC STORAGE

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

ASSETS	June 30, 2010 (Unaudited)	December 31, 2009
Cash and cash equivalents	$474,336	$763,789
Marketable securities	94,888	-
Real estate facilities, at cost:		
Land	2,776,731	2,717,368
Buildings	7,725,359	7,575,587
	10,502,090	10,292,955
Accumulated depreciation	(2,889,931)	(2,734,449)
	7,612,159	7,558,506
Construction in process	6,237	3,527
	7,618,396	7,562,033
Investment in real estate entities	586,936	612,316
Goodwill, net	174,634	174,634
Intangible assets, net	50,062	38,270
Loan receivable from Shurgard Europe	477,031	561,703
Other assets	93,230	92,900
Total assets	$9,569,513	$9,805,645
LIABILITIES AND EQUITY		
Notes payable	$593,275	$518,889
Accrued and other liabilities	231,759	212,253
Total liabilities	825,034	731,142
Redeemable noncontrolling interests in subsidiaries (Note 6)	13,151	13,122
Commitments and contingencies (Note 11)		
Equity:		

Public Storage shareholders' equity:		
Cumulative Preferred Shares of beneficial interest, $0.01 par value, 100,000,000 shares authorized, 885,740 shares issued (in series) and outstanding, (886,140 at December 31, 2009) at liquidation preference	3,389,777	3,399,777
Common Shares of beneficial interest, $0.10 par value, 650,000,000 shares authorized, 168,954,925 shares issued and outstanding (168,405,539 at December 31, 2009)	16,897	16,842
Equity Shares of beneficial interest, Series A, $0.01 par value, 100,000,000 shares authorized, none outstanding (8,377.193 shares issued and outstanding at December 31, 2009) (Note 7)	-	-
Paid-in capital	5,499,452	5,680,549
Accumulated deficit	(272,485)	(153,759)
Accumulated other comprehensive loss	(35,251)	(15,002)
Total Public Storage shareholders' equity	8,598,390	8,928,407
Equity of permanent noncontrolling interests in subsidiaries (Note 6)	132,938	132,974
Total equity	8,731,328	9,061,381
Total liabilities and equity	$9,569,513	$9,805,645

See accompanying notes.

1

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Self-storage facilities	$373,858	$370,853	$738,236	$741,320
Ancillary operations	27,077	28,106	52,235	53,941
Interest and other income	7,032	7,516	15,248	15,149
	407,967	406,475	805,719	810,410
Expenses:				
Cost of operations:				
Self-storage facilities	127,878	124,164	260,414	257,284
Ancillary operations	9,539	10,374	17,969	20,027
Depreciation and amortization	85,039	83,639	169,711	168,174
General and administrative	10,081	8,199	20,158	17,878
Interest expense	7,278	7,288	14,617	15,416
	239,815	233,664	482,869	478,779
Income from continuing operations before equity in earnings of real estate entities, gains on disposition of real estate investments, gain on early retirement of debt, asset impairment charges and foreign currency exchange (loss) gain	168,152	172,811	322,850	331,631
Equity in earnings of real estate entities	8,788	7,398	18,749	30,209
Gains on disposition of real estate investments	63	-	396	2,722
Gain on early retirement of debt	283	-	283	4,114
Asset impairment charges	(1,338)	-	(1,949)	-
Foreign currency exchange (loss) gain	(49,204)	33,205	(84,047)	(1,528)
Income from continuing operations	126,744	213,414	256,282	367,148
Discontinued operations	4,432	(8,027)	4,811	(8,332)
Net income	131,176	205,387	261,093	358,816
Net income allocated (to) from noncontrolling interests in subsidiaries:				
Based upon income of the subsidiaries	(6,138)	(6,215)	(12,094)	(14,642)
Based upon repurchases of interests	-	-	-	72,000
Net income allocable to Public Storage shareholders	$125,038	$199,172	$248,999	$416,174
Allocation of net income to (from) Public Storage shareholders:				
Preferred shareholders based on distributions paid	$58,879	$58,108	$116,987	$116,216
	5,063	-	5,063	(6,218)

Preferred shareholders based on repurchases				
Equity Shares, Series A	-	5,131	5,131	10,262
Equity Shares, Series A based on redemptions	-	-	25,746	-
Restricted share units	259	446	497	932
Common shareholders	60,837	135,487	95,575	294,982
	$125,038	$199,172	$248,999	$416,174
Net income per common share – basic				
Continuing operations	$0.33	$0.85	$0.54	$1.80
Discontinued operations	0.03	(0.05)	0.03	(0.05)
	$0.36	$0.80	$0.57	$1.75
Net income per common share – diluted				
Continuing operations	$0.33	$0.85	$0.53	$1.80
Discontinued operations	0.03	(0.05)	0.03	(0.05)
	$0.36	$0.80	$0.56	$1.75
Basic weighted average common shares outstanding	168,804	168,348	168,641	168,330
Diluted weighted average common shares outstanding	169,629	168,528	169,470	168,501

See accompanying notes.

PUBLIC STORAGE
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(Amounts in thousands, except share data)
(Unaudited)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Equity of Permanent Noncontrolling Interests In Subsidiaries	Total Equity
Balance at December 31, 2009	$3,399,777	$16,842	$5,680,549	$(153,759)	$(15,002)	$8,928,407	$132,974	$9,061,381
Redemption of cumulative preferred shares (6,200 shares) (Note 7)	(155,000)	-	-	-	-	(155,000)	-	(155,000)
Issuance of cumulative preferred shares (5,800 shares) (Note 7)	145,000	-	(4,784)	-	-	140,216	-	140,216
Redemption of Equity Shares, Series A (8,377.193 shares) (Note 7)	-	-	(205,366)	-	-	(205,366)	-	(205,366)
Issuance of common shares in connection with share-based compensation (549,386 shares) (Note 9)	-	55	26,160	-	-	26,215	-	26,215
Share-based compensation expense, net of cash compensation in lieu of common shares (Note 9)	-	-	2,893	-	-	2,893	-	2,893

Adjustments of redeemable noncontrolling interests in subsidiaries to liquidation value (Note 6)	-	-	-	(160)	-	(160)	-	(160)
Net income	-	-	-	261,093	-	261,093	-	261,093
Net income allocated to (Note 6):								
Redeemable noncontrolling interests in subsidiaries	-	-	-	(457)	-	(457)	-	(457)
Permanent noncontrolling equity interests	-	-	-	(11,637)	-	(11,637)	11,637	-
Distributions to equity holders:								
Cumulative preferred shares (Note 7)	-	-	-	(116,987)	-	(116,987)	-	(116,987)
Permanent noncontrolling interests in subsidiaries	-	-	-	-	-	-	(11,673)	(11,673)
Equity Shares, Series A ($0.6125 per depositary share)	-	-	-	(5,131)	-	(5,131)	-	(5,131)
Holders of unvested restricted share units	-	-	-	(782)	-	(782)	-	(782)
Common shares ($1.45 per share)	-	-	-	(244,665)	-	(244,665)	-	(244,665)
Other comprehensive loss (Note 2)	-	-	-	-	(20,249)	(20,249)	-	(20,249)
Balance at June 30, 2010	$3,389,777	$16,897	$5,499,452	$(272,485)	$(35,251)	$8,598,390	$132,938	$8,731,328

See accompanying notes.

3

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

	For the Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	$261,093	$358,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposition of real estate investments, including amounts in discontinued operations	(5,483)	(6,903)
Gain on early retirement of debt	(283)	(4,114)
Asset impairment charges, including amounts in discontinued operations	2,544	8,205
Depreciation and amortization, including amounts in discontinued operations	170,091	169,484
Distributions received from real estate entities in excess of (less than) equity in earnings of real estate entities	6,272	(6,501)
Foreign currency exchange loss	84,047	1,528
Other	7,331	21,733
Total adjustments	264,519	183,432
Net cash provided by operating activities	525,612	542,248
Cash flows from investing activities:		
Capital improvements to real estate facilities	(37,002)	(32,575)
Construction in process	(8,371)	(5,933)
Acquisition of real estate facilities and tenant intangibles (Note 3)	(66,378)	-
Proceeds from sales of other real estate investments	10,753	10,261
Proceeds from repayment of loan receivable from Shurgard Europe	1,532	-
Purchases of marketable securities	(95,248)	-
Other investing activities	9,811	(823)
Net cash used in investing activities	(184,903)	(29,070)
Cash flows from financing activities:		
Principal payments on notes payable	(55,181)	(3,746)
Repurchases of senior unsecured notes payable	-	(109,622)
Net proceeds from the issuance of common shares	26,215	769
Issuance of cumulative preferred shares	140,216	-
Repurchases of cumulative preferred shares	(155,000)	(17,535)
Repurchases of Equity Shares, Series A	(205,366)	-
Repurchases of permanent noncontrolling equity interests	-	(153,000)
Distributions paid to Public Storage shareholders	(367,565)	(312,328)
Distributions paid to redeemable noncontrolling interests	(588)	(666)
Distributions paid to permanent noncontrolling equity interests	(11,673)	(13,411)
Net cash used in financing activities	(628,942)	(609,539)
Net decrease in cash and cash equivalents	(288,233)	(96,361)
Net effect of foreign exchange translation on cash	(1,220)	520

Cash and cash equivalents at the beginning of the period	763,789	680,701
Cash and cash equivalents at the end of the period	$474,336	$584,860

See accompanying notes.

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

(Continued)

	For the Six Months Ended June 30,	
	2010	2009
Supplemental schedule of non cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	$828	$(2,022)
Investment in real estate entities	19,108	(11,633)
Loan receivable from Shurgard Europe	83,140	1,862
Accumulated other comprehensive loss	(104,296)	12,313
Adjustments of redeemable noncontrolling interests to fair values:		
Accumulated deficit	(160)	(255)
Redeemable noncontrolling interests	160	255
Real estate acquired in exchange for assumption of notes payable	(131,698)	-
Notes payable assumed in connection with the acquisition of real estate	131,698	-

See accompanying notes.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

1. Description of the Business

Public Storage (referred to herein as "the Company", "the Trust", "we", "us", or "our"), a Maryland real estate investment tru 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. Our self-storage facilities are located primarily in the United States ("U.S."). We also have interests in self-storage facilities located in seven Western European countries.

At June 30, 2010, we had direct and indirect equity interests in 2,037 self-storage facilities located in 38 states operating under the "Public Storage" name and own one facility in London, England. We also have a 49% interest in Shurgard Europe, which owns 115 facilities directly, has a 20% interest in 72 self-storage facilities located in Europe, and manages our London, England facility. All of these facilities are operated under the "Shurgard Storage Centers" name. We also have direct and indirect equity interests in approximately 22 million net rentable square feet of commercial space located in 11 states in the U.S. primarily operated by PS Business Parks, Inc. ("PSB") under the "PS Business Parks" name.

Any reference to the number of properties, square footage, number of tenant reinsurance policies outstanding and the aggregate coverage of such reinsurance policies are unaudited and outside the scope of our independent registered public accounting firm's review and audit of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been 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 the related guidance with respect to interim financial information, and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation have been reflected in these unaudited condensed consolidated financial statements. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 due to seasonality and other factors. The accompanying unaudited condensed consolidated financial statements should be read together with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Certain amounts previously reported in our December 31, 2009 and June 30, 2009 financial statements have been reclassified to conform to the June 30, 2010 presentation, as a result of discontinued operations.

Consolidation Policy

Codification Section 810-10-15-14 stipulates that generally any entity with a) insufficient equity to finance its activities without additional subordinated financial support provided by any parties, or b) equity holders that, as a group, lack the characteristics specified in the Codification which evidence a controlling financial interest, is considered a Variable Interest Entity ("VIE").

When we are the general partner, we are presumed to control the partnership unless the limited partners possess either a) the substantive ability to dissolve the partnership or otherwise remove us as general partner without cause (commonly referred to as "kick-out rights"), or b) the right to participate in substantive operating and financial decisions of the limited partnership that are expected to be made in the course of the partnership's business.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

The accounts of the entities we control, and VIE's that we are the primary beneficiary of, are included in our consolidated financial statements, and all intercompany balances and transactions are eliminated. We account for our investment in entities that we do not consolidate using the equity method of accounting or, if we do not have the ability to exercise significant influence over an investee, the cost method of accounting. Changes in consolidation status are reflected effective the date the change of control or determination of primary beneficiary status occurred, and previously reported periods are not restated. The entities that we consolidate, for the periods in which the reference applies, are referred to hereinafter as the "Subsidiaries." The entities that we have an interest in but do not consolidate, for the periods in which the reference applies, are referred to hereinafter as the "Unconsolidated Entities."

Collectively, at June 30, 2010, the Company and the Subsidiaries own a total of 2,027 real estate facilities included in continuing operations, consisting of 2,018 self-storage facilities in the U.S., one self-storage facility in London, England and eight commercial facilities in the U.S.

At June 30, 2010, the Unconsolidated Entities are comprised of PSB, Shurgard Europe, and various limited and joint venture partnerships (the partnerships referred to as the "Other Investments"). At June 30, 2010, PSB owns approximately 21.0 million rentable square feet of commercial space, Shurgard Europe has interests in 187 self-storage facilities in Europe with 10.0 million net rentable square feet, and the Other Investments own in aggregate 19 self-storage facilities with 1.1 million net rentable square feet in the U.S.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes

For all taxable years subsequent to 1980, the Company has qualified and intends to continue to qualify as a real estate investment trust ("REIT"), as defined in Section 856 of the Internal Revenue Code. As a REIT, we do not incur federal or significant state tax on that portion of our taxable income which is distributed to our shareholders, provided that we meet certain tests. We believe we have met these tests during 2009 and we expect to meet these tests during 2010 and, accordingly, no provision for federal income taxes has been made in the accompanying condensed consolidated financial statements on income produced and distributed on real estate rental operations. We have business operations in taxable REIT subsidiaries that are subject to regular corporate tax on their taxable income, and such corporate taxes attributable to these operations are presented in ancillary cost of operations in our accompanying condensed consolidated statements of income. We also are subject to certain state taxes, which are presented in general and administrative expense in our accompanying condensed consolidated statements of income. We have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements with respect to all tax periods which remain subject to examination by major tax jurisdictions as of June 30, 2010.

7

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

Real Estate Facilities

Real estate facilities are recorded at cost. Costs associated with the development, construction, renovation and improvement of properties are capitalized. Interest, property taxes and other costs associated with development incurred during the construction period are capitalized as building cost. Costs associated with the sale of real estate facilities or interests in real estate investments are expensed as incurred. Expenditures for repairs and maintenance are expensed when incurred. Depreciation expense is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which generally range from 5 to 25 years.

Acquisitions of operating self-storage facilities are accounted for under the provisions of Codification Section 805, "Business Combinations." The net acquisition cost includes cash paid to the seller as well as the fair value of any mortgage debt assumed. In the case of multiple facility acquisitions, the aggregate acquisition cost is allocated to each facility based upon the relative estimated fair value of each facility. Any difference between the acquisition cost and the fair value of the real estate facilities is recorded as goodwill. The acquisition cost of each facility is allocated to the underlying land, buildings, and self-storage tenants in place ("Tenant Intangibles") of each facility, based upon the relative estimated fair values. Significant judgment is used to estimate fair values in recording our business combinations, and the valuation process utilizes significant unobservable inputs, which are "Level 3" inputs as the term is defined in FASB Codification Section 820-10-35-52. Legal services, due diligence, transfer taxes, and other internal and external transaction costs associated with acquisitions are expensed as incurred.

Other Assets

Other assets primarily consist of prepaid expenses, accounts receivable, interest receivable, and restricted cash. During the six months ended June 30, 2010, we recorded impairment charges with respect to other assets totaling $611,000. These amounts are included in "asset impairment charges" on our condensed consolidated statement of income for the six months ended June 30, 2010.

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, contingent casualty and other losses which are accrued when probable and to the extent they are estimable, and estimated losses we expect to pay related to our tenant insurance activities. When it is at least reasonably possible that a significant unaccrued contingent loss has occurred, we disclose the nature of that potential loss under "Legal Matters" in Note 11 "Commitments and Contingencies".

Financial Instruments

We have estimated the fair value of our financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of market value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

For purposes of financial statement presentation, we consider all highly liquid financial instruments such as short-term treasury securities, money market funds with daily liquidity and a rating of at least AAA by Standard and Poor's, or investment grade (rated A1 by Standard and Poor's) short-term commercial paper with remaining maturities of three months or less at the date of acquisition to be cash equivalents. Any such cash and cash equivalents which are restricted from general corporate use (restricted cash) due to insurance or other regulations, or based upon contractual requirements, are included in other assets.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

Marketable securities represent corporate debt securities rated A1 by Standard and Poor's. Because we have the positive intent and ability to hold these securities to maturity, the securities are stated at amortized cost, the related unrecognized gains and losses are excluded from earnings and other comprehensive income. The difference between interest income that is imputed using the effective interest method and the actual note interest collected is recorded as an adjustment to the marketable security balance; marketable securities were decreased $202,000 during the six months ended June 30, 2010 in applying the effective interest method. The amortized cost, gross unrecognized holding losses, and fair value of our marketable securities were $94,888,000, ($199,000) and $94,689,000, respectively, at June 30, 2010. The characteristics of the marketable securities and comparative metrics utilized in our evaluation represent significant observable inputs, which are "Level 2" inputs as the term is defined in FASB Codification Section 820-10-35-47. All of our marketable securities have a maturity of one year or less as of June 30, 2010. We periodically assess our marketable securities for other-than-temporary impairment. Any such other-than-temporary impairment from credit loss is recognized as a realized loss and measured as the excess of carrying value over fair value at the time the assessment is made. During the six months ended June 30, 2010, we had no other-than-temporary impairment losses.

Due to the short maturity and the underlying characteristics of our cash and cash equivalents, other assets, and accrued and other liabilities, we believe the carrying values as presented on the condensed consolidated balance sheets are reasonable estimates of fair value.

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, marketable securities, accounts receivable, the loan receivable from Shurgard Europe, and restricted cash, which is included in other assets. Cash and cash equivalents and restricted cash, as described above, including commercial paper, are only invested in instruments with an investment grade rating. See "Loan Receivable from Shurgard Europe" below for information regarding our fair value measurement of this instrument.

At June 30, 2010, due primarily to our investment in and loan receivable from Shurgard Europe, our operations and our 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.

We estimate the fair value of our notes payable to be $615,919,000 at June 30, 2010, based primarily upon discounting the future cash flows under each respective note at an interest rate that approximates loans with similar credit quality and term to maturity. The characteristics of the notes payable and comparative metrics utilized in our evaluation represent significant observable inputs, which are "Level 2" inputs as the term is utilized in FASB Codification Section 820-10-35-47.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and identifiable intangible assets acquired in business combinations, and has an indeterminate life. Each business combination from which our goodwill arose was for the acquisition of single businesses and accordingly, the allocation of our goodwill to our business segments is based directly on such acquisitions. Our goodwill balance of $174,634,000 is reported net of accumulated amortization of $85,085,000 as of June 30, 2010 and December 31, 2009.

Intangible Assets

Our tenant intangibles are finite-lived intangible assets representing primarily the estimated value of the tenants in place ("Tenant Intangibles") at the date of the acquisition of each respective facility. Tenant Intangibles are amortized relative to the benefit of the tenants in place to each period. Accumulated amortization reflects those individual real estate facilities where the related Tenant Intangibles had not been fully amortized at each applicable date.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

At June 30, 2010, our Tenant Intangibles have a net book value of $31,238,000 ($19,446,000 at December 31, 2009). Accumulated amortization totaled $13,221,000 at June 30, 2010 ($14,688,000 at December 31, 2009), and amortization expense of $2,408,000 and $1,032,000 was recorded for the three months ended June 30, 2010 and 2009, respectively, and $3,314,000 and $3,289,000 was recorded for the six months ended June 30, 2010 and 2009, respectively. During the three months ended June 30, 2010, our Tenant Intangibles were increased by $15,304,000 in connection with the acquisition of 31 self-storage facilities (Note 3) and were reduced by $198,000 in connection with the termination of a ground lease.

We also have an intangible asset representing the value of the "Shurgard" trade name, which is used by Shurgard Europe pursuant to a licensing agreement, with a book value of $18,824,000 at June 30, 2010 and December 31, 2009. The Shurgard trade name has an indefinite life and, accordingly, we do not amortize this asset but instead analyze it on an annual basis for impairment. No impairments have been noted from any of our annual evaluations, and we did not identify any indicators of impairment at June 30, 2010.

Evaluation of Asset Impairment

We evaluate our real estate, tenant intangible assets, and other long-lived assets for impairment on a quarterly basis. We first evaluate these assets for indicators of impairment, and if any indicators of impairment are noted, we determine whether the carrying value of such assets is in excess of the future estimated undiscounted cash flows attributable to these assets. If there is excess carrying value over such future undiscounted cash flows, an impairment charge is recorded for the excess of carrying value over the assets' estimated fair value. Any long-lived assets which we expect to sell or otherwise dispose of prior to their estimated useful life are stated at the lower of their estimated net realizable value (estimated fair value less cost to sell) or their carrying value. During the six months ended June 30, 2010, we recorded impairment charges totaling $2,544,000, comprised of $1,735,000 in real estate facilities (Note 3), of which $397,000 is reflected under "discontinued operations" on our condensed consolidated statements of income, $611,000 in other assets, and $198,000 in intangible assets related to a ground lease and which is reflected under "discontinued operations" on our condensed consolidated statements of income. During the three and six months ended June 30, 2009, we recorded an impairment charge of $8,205,000, reflected under "discontinued operations" on our condensed consolidated statements of income, in connection with an eminent domain proceeding at one of our facilities. No additional impairments were identified from our evaluations in any periods presented in the accompanying condensed consolidated financial statements, except as noted above.

We evaluate impairment of goodwill annually by comparing the aggregate book value (including goodwill) of each reporting unit to their respective estimated fair value. No impairment of our goodwill was identified in our annual evaluation at December 31, 2009, nor were there any indicators of impairment at June 30, 2010.

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 are recognized as a reduction to rental income over the promotional period, which is generally during the first month of occupancy. Ancillary revenues and interest and other income are recognized when earned. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the Unconsolidated Entities.

We accrue for property tax expense based upon actual amounts billed for the related time periods and, in some circumstances due to taxing authority assessment and billing timing and disputes of assessed amounts, estimates and historical trends. If these estimates are incorrect, the timing and amount of expense recognition could be affected. Cost of operations, general and administrative expense, interest expense, as well as television, yellow page, and other advertising expenditures are expensed as incurred.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

Foreign Currency Exchange Translation

The local currency is the functional currency for the foreign operations we have an interest in. Assets and liabilities included on our consolidated balance sheets, including our equity investment in, and our loan receivable from, Shurgard Europe, are translated at end-of-period exchange rates, while revenues, expenses, and equity in earnings in the related real estate entities, are translated at the average exchange rates in effect during the period. The Euro, which represents the functional currency used by a majority of the foreign operations we have an interest in, was translated at an end-of-period exchange rate of approximately 1.221 U.S. Dollars per Euro at June 30, 2010 (1.433 at December 31, 2009), and average exchange rates of 1.273 and 1.361 for the three months ended June 30, 2010 and 2009, respectively, and 1.329 and 1.334 for the six months ended June 30, 2010 and 2009, respectively. Equity is translated at historical rates and the resulting cumulative translation adjustments, to the extent not included in net income, are included as a component of accumulated other comprehensive income (loss) until the translation adjustments are realized. See "Other Comprehensive Income" below for further information regarding our foreign currency translation gains and losses.

Fair Value Accounting

As the term is used in our financial statements, "fair value" is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We prioritize the inputs used in measuring fair value based upon a three-tier fair value hierarchy described in the FASB Codification Section 820-10-35. See "Loan Receivable from Shurgard Europe" below, and "Financial Instruments" and "Real Estate Facilities" above, as well as "Redeemable Noncontrolling Interests in Subsidiaries" and "Other Permanent Noncontrolling Interests in Subsidiaries" in Note 6 for information regarding our fair value measurements.

Loan Receivable from Shurgard Europe

As of June 30, 2010, we had a €390.8 million loan receivable from Shurgard Europe totaling $477,031,000 (€391.9 million totaling $561,703,000 at December 31, 2009). The loan, as amended, bears interest at a fixed rate of 9.0% per annum and matures March 31, 2013. Prior to being amended on October 31, 2009, the loan bore interest at a fixed rate of 7.5% per annum and matured on March 31, 2010. All other material terms and conditions remained the same after the amendment.

The loan is denominated in Euros and is translated to U.S. Dollars for financial statement purposes. During each applicable period, because we have expected repayment of the loan within two years of each respective balance sheet date, we have recognized foreign exchange rate gains or losses in income as a result of changes in exchange rates between the Euro and the U.S. Dollar.

For the three and six months ended June 30, 2010, we recorded interest income of approximately $5,833,000 and $12,263,000, respectively, related to the loan. For the three and six months ended June 30, 2009, we recorded interest income of approximately $5,797,000 and $10,974,000, respectively, related to the loan. These amounts reflect 51% of the aggregate interest on the loans, with the other 49%, reflecting our ownership interest in Shurgard Europe, classified as equity in earnings of real estate entities. Loan fees collected from Shurgard Europe are amortized on a straight-line basis as interest income over the applicable term to which the fee applies. We received $1,532,000 in principal repayments on the loan during the six months ended June 30, 2010.

11

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

Although there can be no assurance, we believe that Shurgard Europe has sufficient liquidity and collateral, and we have sufficient creditor rights, such that credit risk relating to the loan is minimal. In addition, we believe the interest rate on the loan approximates the market rate for loans with similar credit characteristics and tenor, and that the carrying value of the loan approximates fair value. The characteristics of the loan and comparative metrics utilized in our evaluation represent significant unobservable inputs, which are "Level 3" inputs as the term is utilized in FASB Codification Section 820-10-35-52.

Other Comprehensive Income

Other comprehensive income consists primarily of foreign currency translation adjustments. Other comprehensive income is reflected as an adjustment to "Accumulated Other Comprehensive Income" in the equity section of our condensed consolidated balance sheet, and is added to our net income in determining total comprehensive income for the period as reflected in the following table:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Amounts in thousands)		(Amounts in thousands)	
Net income	$131,176	$205,387	$261,093	$358,816
Other comprehensive income (loss):				