

Public Storage
Form 10-Q
August 05, 2015

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, 2015

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)
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701 Western Avenue, Glendale, California (Address of principal executive offices)	91201-2349 (Zip Code)
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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 the number of the registrant's outstanding common shares of beneficial interest, as of August 3, 2015:

Common Shares of beneficial interest, \$.10 par value per share – 172,967,347 shares

PUBLIC STORAGE

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BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 20,256	\$ 187,712
Real estate facilities, at cost:		
Land	3,517,310	3,476,883
Buildings	9,502,764	9,386,352
	13,020,074	12,863,235
Accumulated depreciation	(4,668,557)	(4,482,520)
	8,351,517	8,380,715
Construction in process	145,455	104,573
	8,496,972	8,485,288
Investments in unconsolidated real estate entities	808,455	813,740
Goodwill and other intangible assets, net	216,312	228,632
Other assets	92,763	103,304
Total assets	\$ 9,634,758	\$ 9,818,676
LIABILITIES AND EQUITY		
Borrowings on bank credit facility	\$ 11,000	\$ -
Notes payable	47,683	64,364
Accrued and other liabilities	270,414	247,141
Total liabilities	329,097	311,505
Commitments and contingencies (Note 12)		
Equity:		
Public Storage shareholders' equity:		
Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 167,200 shares issued (in series) and outstanding, (173,000 at December 31, 2014), at liquidation preference	4,180,000	4,325,000

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Common Shares, \$0.10 par value, 650,000,000 shares authorized, 172,664,710 shares issued and outstanding (172,445,554 shares at December 31, 2014)	17,267	17,245
Paid-in capital	5,571,895	5,561,530
Accumulated deficit	(428,270)	(374,823)
Accumulated other comprehensive loss	(61,523)	(48,156)
Total Public Storage shareholders' equity	9,279,369	9,480,796
Noncontrolling interests	26,292	26,375
Total equity	9,305,661	9,507,171
Total liabilities and equity	\$ 9,634,758	\$ 9,818,676

See accompanying notes.

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PUBLIC STORAGE

STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues:				
Self-storage facilities	\$ 551,028	\$ 500,803	\$ 1,081,665	\$ 986,390
Ancillary operations	41,603	37,234	80,360	71,271
	592,631	538,037	1,162,025	1,057,661
Expenses:				
Self-storage cost of operations	147,826	142,427	309,068	298,495
Ancillary cost of operations	14,406	8,127	26,326	26,578
Depreciation and amortization	106,473	106,443	213,619	215,464
General and administrative	20,988	15,377	45,148	34,366
	289,693	272,374	594,161	574,903
Operating income	302,938	265,663	567,864	482,758
Interest and other income	934	1,000	1,606	3,402
Interest expense	-	(2,063)	-	(5,543)
Equity in earnings of unconsolidated real estate entities	7,480	14,135	23,664	28,739
Foreign currency exchange loss	-	(1,675)	-	(4,023)
Gain on real estate sales	16,688	1,219	18,160	1,219
Net income	328,040	278,279	611,294	506,552
Allocation to noncontrolling interests	(1,635)	(1,445)	(3,108)	(2,522)
Net income allocable to Public Storage shareholders	326,405	276,834	608,186	504,030
Allocation of net income to:				
Preferred shareholders	(61,449)	(57,672)	(125,004)	(110,179)
Preferred shareholders - redemptions (Note 8)	-	-	(4,784)	-
Restricted share units	(1,030)	(810)	(1,859)	(1,447)
Net income allocable to common shareholders	\$ 263,926	\$ 218,352	\$ 476,539	\$ 392,404
Net income per common share:				
Basic	\$ 1.53	\$ 1.27	\$ 2.76	\$ 2.28
Diluted	\$ 1.52	\$ 1.26	\$ 2.75	\$ 2.27
Basic weighted average common shares outstanding	172,629	172,282	172,575	172,096
Diluted weighted average common shares outstanding	173,387	173,181	173,377	172,995
Cash dividends declared per common share	\$ 1.70	\$ 1.40	\$ 3.10	\$ 2.80

See accompanying notes.

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PUBLIC STORAGE

STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 328,040	\$ 278,279	\$ 611,294	\$ 506,552
Other comprehensive income (loss):				
Aggregate foreign currency exchange income (loss)	17,049	(6,228)	(13,367)	(8,091)
Adjust for foreign currency exchange loss included in net income	-	1,675	-	4,023
Other comprehensive income (loss):	17,049	(4,553)	(13,367)	(4,068)
Total comprehensive income	345,089	273,726	597,927	502,484
Allocation to noncontrolling interests	(1,635)	(1,445)	(3,108)	(2,522)
Comprehensive income allocable to Public Storage shareholders	\$ 343,454	\$ 272,281	\$ 594,819	\$ 499,962

See accompanying notes.

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STATEMENT OF EQUITY

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

(Unaudited)

Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity	
Balances at December 31, 2014	\$ 4,325,000	\$ 17,245	\$ 5,561,530	\$ (374,823)	\$ (48,156)	\$ 9,480,796	\$ 26,375	\$ 9,507,171
Redemption of 5,800 preferred shares (Note 8)	(145,000)	-	-	-	-	(145,000)	-	(145,000)
Issuance of common shares in connection with share-based compensation (219,156 shares) (Note 10)	-	22	10,466	-	-	10,488	-	10,488
Cash paid in lieu of common shares, net of share-based compensation expense (Note 10)	-	-	(101)	-	-	(101)	-	(101)
Net income	-	-	-	611,294	-	611,294	-	611,294
Net income allocated to noncontrolling interests	-	-	-	(3,108)	-	(3,108)	3,108	-
Distributions to equity holders: Preferred shares (Note 8)	-	-	-	(125,004)	-	(125,004)	-	(125,004)
Noncontrolling interests	-	-	-	-	-	-	(3,191)	(3,191)

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Common shares and restricted share units (\$3.10 per share)	-	-	-	(536,629)	-	(536,629)	-	(536,629)
Other comprehensive loss (Note 2)	-	-	-	-	(13,367)	(13,367)	-	(13,367)
Balances at June 30, 2015	\$ 4,180,000	\$ 17,267	\$ 5,571,895	\$ (428,270)	\$ (61,523)	\$ 9,279,369	\$ 26,292	\$ 9,305,661

See accompanying notes.

PUBLIC STORAGE

STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 611,294	\$ 506,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on real estate sales	(18,160)	(1,219)
Depreciation and amortization	213,619	215,464
Distributions received from unconsolidated real estate entities less than equity in earnings	(7,303)	(2,953)
Foreign currency exchange loss	-	4,023
Other	26,584	4,179
Total adjustments	214,740	219,494
Net cash provided by operating activities	826,034	726,046
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(32,461)	(32,897)
Construction in process	(100,085)	(48,503)
Acquisition of real estate facilities and intangible assets	(87,783)	(32,030)
Proceeds from sale of real estate facilities	13,929	1,289
Disposition of portion of loan receivable from Shurgard Europe	-	216,217
Other	18,426	(2,355)
Net cash (used in) provided by investing activities	(187,974)	101,721
Cash flows from financing activities:		
Borrowings (repayments) on bank credit facility	11,000	(50,100)
Repayments on term loan	-	(378,000)
Repayments on notes payable	(16,282)	(18,768)
Issuance of preferred shares	-	555,106
Issuance of common shares	10,488	30,491
Redemption of preferred shares	(145,000)	-
Distributions paid to Public Storage shareholders	(661,633)	(593,923)
Distributions paid to noncontrolling interests	(3,191)	(3,400)
Net cash used in financing activities	(804,618)	(458,594)
Net (decrease) increase in cash and cash equivalents	(166,558)	369,173

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Net effect of foreign exchange translation on cash and cash equivalents	(898)	(359)
Cash and cash equivalents at the beginning of the period	187,712	19,169
Cash and cash equivalents at the end of the period	\$ 20,256	\$ 387,983

See accompanying notes.

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PUBLIC STORAGE

STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Supplemental schedule of non-cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	\$ (119)	\$ (638)
Investments in unconsolidated real estate entities	12,588	4,376
Loan receivable from Shurgard Europe	-	3,994
Accumulated other comprehensive loss	(13,367)	(8,091)
Real estate acquired in exchange for assumption of notes payable	-	(5,097)
Notes payable assumed in connection with acquisition of real estate	-	5,097

See accompanying notes.

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(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, 2015, we have direct and indirect equity interests in 2,262 self-storage facilities (with approximately 147 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name. We also own one self-storage facility in London, England, and we have a 49% interest in Shurgard Europe, which owns 215 self-storage facilities (with approximately 11 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 30 million net rentable square feet of commercial space located in 10 states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At June 30, 2015, we have an approximate 42% common equity interest in PSB.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) as defined in the Financial Accounting Standards Board (“FASB”) 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, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 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, 2014.

Consolidation and Equity Method of Accounting

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

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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 equity method of accounting (these entities, for the periods in which the reference applies, are referred to collectively as the “Unconsolidated Real Estate Entities”), eliminating intra-entity profits and losses and

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NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

amortizing any differences between the cost of our investment and the underlying equity in net assets against equity in earnings as if the Unconsolidated Real Estate Entity were a consolidated subsidiary. When we obtain control of an Unconsolidated Real Estate Entity, we commence consolidating the entity and record a gain representing the differential between the book value and fair value of our preexisting equity interest. All changes in consolidation status are reflected prospectively.

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

Collectively, at June 30, 2015, the Company and the Subsidiaries own 2,249 self-storage facilities in the U.S., one self-storage facility in London, England and four commercial facilities in the U.S. At June 30, 2015, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 13 self-storage facilities in the U.S. (these limited partnerships, for the periods in which the reference applies, are referred to as the "Other Investments").

Use of Estimates

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

Income Taxes

We have elected to be treated as a real estate investment trust ("REIT"), as defined in the Internal Revenue Code of 1986, as amended (the "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 2015, and that we have met them for all other periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

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

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of June 30, 2015, we had no tax benefits that were not recognized.

Real Estate Facilities

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Real estate facilities are recorded at cost. We capitalize all costs incurred to develop, construct, renovate and improve facilities, 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 to the underlying land, buildings, identified intangible assets, and any noncontrolling interests that remain outstanding based upon their

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NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

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 rents receivable from our tenants, prepaid expenses and restricted cash.

Accrued and Other Liabilities

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

Cash Equivalents, Marketable Securities and Other Financial Instruments

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

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

Fair Value Accounting

As used herein, the term "fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We prioritize the inputs used in measuring fair value based upon a three-tier hierarchy described in Codification Section 820-10-35. Our estimates of fair value involve considerable judgement and are not necessarily indicative of the amounts that could be realized in current market exchanges.

We believe that, during all periods presented, the carrying values approximate the estimated 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 judgement. 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.

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We 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 these 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

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June 30, 2015

(Unaudited)

rates for debt securities with a similar time to maturity and credit quality, which are “Level 3” inputs as the term is defined in Codification Section 820-10-35-52.

Currency and Credit Risk

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, rents receivable from our tenants, 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, 2015, due primarily to our investment in Shurgard Europe, our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

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

Goodwill totaled \$174.6 million at June 30, 2015 and December 31, 2014. 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, 2015 and December 31, 2014. Goodwill and the “Shurgard” trade name have indefinite lives and are not amortized.

Acquired customers in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the customers in place or the benefit to land lease expense to each period. At June 30, 2015, these intangibles had a net book value of \$22.9 million (\$35.2 million at December 31, 2014). Accumulated amortization totaled \$78.0 million at June 30, 2015 (\$69.3 million at December 31, 2014), and amortization expense of \$15.9 million and \$24.8 million was recorded in the six months ended June 30, 2015 and 2014, respectively. The estimated future amortization expense for our finite-lived intangible assets at June 30, 2015 is approximately \$8.9 million in the remainder of 2015, \$6.5 million in 2016 and \$7.5 million thereafter. During the six months ended June 30, 2015, intangibles were increased \$3.6 million in connection with the acquisition of self-storage facilities (Note 3).

Evaluation of Asset Impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the asset is not recoverable from future undiscounted cash flows to be received through the asset’s remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset’s estimated fair value or net proceeds from expected disposal.

We evaluate our investments in unconsolidated real estate entities for impairment on a quarterly basis. We record an impairment charge to the extent the carrying amount exceeds estimated fair value, when we believe any such shortfall

is other than temporary.

We evaluate goodwill for impairment annually and whenever relevant events, circumstances and other related factors indicate that fair value of the related reporting unit may be less than the carrying amount. If we determine that the fair value of the reporting unit exceeds the aggregate carrying amount, no impairment charge is recorded. Otherwise, we record an impairment charge to the extent the carrying amount of the goodwill

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NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

exceeds the amount that would be allocated to goodwill if the reporting unit were acquired for estimated fair value.

We evaluate the “Shurgard” trade name for impairment at least annually and whenever relevant events, circumstances and other related factors indicate that the fair value is less than the carrying amount. When we conclude that it is likely that the asset is not impaired, we do not record an impairment charge and no further analysis is performed. Otherwise, we record an impairment charge to the extent the carrying amount exceeds the asset’s estimated fair value.

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, generally one month. 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. When financial instruments denominated in a currency other than the U.S. Dollar are expected to be settled in cash in the foreseeable future, the impact of changes in the U.S. Dollar equivalent are reflected in current earnings. The Euro was translated at exchange rates of approximately 1.110 U.S. Dollars per Euro at June 30, 2015 (1.216 at December 31, 2014), and average exchange rates of 1.106 and 1.371 for the three months ended June 30, 2015 and 2014, respectively, and average exchange rates of 1.116 and 1.371 for the six months ended June 30, 2015 and 2014, respectively. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in equity as a component of accumulated other comprehensive income (loss).

Comprehensive Income

Total comprehensive income 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 Shurgard Europe.

Recent Accounting Pronouncements and Guidance

In May 2014, the FASB issued an accounting standard update (“ASU”) (ASU No. 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The new standard is effective for us on January 1, 2018. Early adoption is permitted effective January 1, 2017. We have not yet selected a transition method. We do not believe the adoption of ASU No. 2014-09 will have a material impact on our results of operations or financial condition.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810)." The guidance in this ASU includes amendments to Topic 810, "Consolidation." The new guidance modifies the consolidation analysis for limited and general partnerships and entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships. Additionally, it provides a scope exception to the consolidation guidance for certain entities. The amendments in ASU No. 2015-02 are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. We have not yet determined whether the adoption of ASU No. 2015-02 will have a material effect on our results of operations or financial condition.

Net Income per Common Share

Net income is allocated to (i) noncontrolling interests based upon their share of the net income of the Subsidiaries, (ii) preferred shareholders, to the extent redemption cost exceeds the related original net issuance proceeds (in accordance with the provisions of Codification Section 260-10-S99-2, an "EITF D-42 allocation"), and (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 is computed using the weighted average common shares outstanding. Diluted net income per share is computed using the weighted average common shares outstanding, adjusted for the impact, if dilutive, of stock options outstanding (Note 10).

The following table reflects net income allocable to common shareholders and the weighted average common shares and equivalents outstanding, as used in our calculations of basic and diluted net income per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Amounts in thousands)			
Net income allocable to common shareholders	\$ 263,926	\$ 218,352	\$ 476,539	\$ 392,404

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Weighted average common shares and equivalents
outstanding:

Basic weighted average common shares outstanding	172,629	172,282	172,575	172,096
Net effect of dilutive stock options - based on treasury stock method	758	899	802	899
Diluted weighted average common shares outstanding	173,387	173,181	173,377	172,995

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

3. Real Estate Facilities

Activity in real estate facilities during the six months ended June 30, 2015 is as follows:

	Six Months Ended June 30, 2015 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	\$ 12,863,235
Capital expenditures to maintain real estate facilities	32,461
Acquisitions	84,229
Dispositions	(19,320)
Newly developed facilities opened for operation	59,203
Impact of foreign exchange rate changes	266
Ending balance	13,020,074
Accumulated depreciation:	
Beginning balance	(4,482,520)
Depreciation expense	(194,776)
Dispositions	8,886
Impact of foreign exchange rate changes	(147)
Ending balance	(4,668,557)
Construction in process:	
Beginning balance	104,573
Current development	100,085
Newly developed facilities opened for operation	(59,203)
Ending balance	145,455
Total real estate facilities at June 30, 2015	\$ 8,496,972

During the six months ended June 30, 2015, we acquired eight self-storage facilities (560,000 net rentable square feet) and the leasehold interest in the land of one of our existing self-storage facilities, for a total cost of \$87.8 million in cash. Approximately \$3.6 million of the total cost was allocated to intangible assets. We completed expansion and development activities during the six months ended June 30, 2015, adding 558,000 net rentable square feet of self-storage space, at an aggregate cost of \$59.2 million. Construction in process at June 30, 2015 consists of projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 3.9 million

net rentable square feet of storage space, for an aggregate estimated cost of approximately \$479 million. During the six months ended June 30, 2015, we sold one commercial facility and two self-storage facilities in connection with eminent domain proceedings, and recorded related gains on real estate sales totaling \$18.2 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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	Investments in Unconsolidated Real Estate Entities at	
	June 30, 2015	December 31, 2014
PSB	\$ 413,062	\$ 412,115
Shurgard Europe	388,792	394,842
Other Investments	6,601	6,783
Total	\$ 808,455	\$ 813,740

	Equity in Earnings of Unconsolidated Real Estate Entities for the			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
PSB	\$ 5,516	\$ 4,315	\$ 15,411	\$ 9,652
Shurgard Europe	1,355	9,379	7,091	18,263
Other Investments	609	441	1,162	824
Total	\$ 7,480	\$ 14,135	\$ 23,664	\$ 28,739

During the six months ended June 30, 2015 and 2014, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$16.4 million and \$25.8 million, respectively. At June 30, 2015, the cost of our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately \$62 million (\$68 million at December 31, 2014). This differential is being amortized as a reduction in equity in earnings of the Unconsolidated Real Estate Entities based upon allocations to the underlying net assets. Such amortization was approximately \$1.1 million and \$1.0 million during the six months ended June 30, 2015 and 2014, respectively.

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 42% common equity interest in PSB as of June 30, 2015 and December 31, 2014, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units ("LP Units") in an operating partnership controlled by PSB. The LP Units

are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at June 30, 2015 (\$72.15 per share of PSB common stock), the shares and units we owned had a market value of approximately \$1.0 billion.

Included in equity in earnings of unconsolidated real estate entities is our \$5.0 million share of gains on sale of facilities recorded by PSB for the six months ended June 30, 2015 (none in the three months ended June 30, 2015 or in the three and six months ended June 30, 2014).

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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June 30, 2015

(Unaudited)

	June 30, 2015	December 31, 2014
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(Amounts in thousands)

Total assets (primarily real estate)	\$ 2,239,619	\$ 2,227,114
Debt	250,000	250,000
Other liabilities	70,014	68,905
Equity:		
Preferred stock	995,000	995,000
Common equity and units	924,605	913,209

	2015	2014
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(Amounts in thousands)

For the six months ended June 30,

Total revenue	\$ 185,543	\$ 189,638
Costs of operations	(61,803)	(64,979)
Depreciation and amortization	(53,258)	(56,736)
General and administrative	(6,896)	(5,850)
Other items	(6,409)	(6,622)
Gain on sale of facilities	12,487	-
Net income	69,664	55,451
Allocations to preferred shareholders and restricted share unitholders	(30,384)	(30,313)
Net income allocated to common shareholders and LP Unitholders	\$ 39,280	\$ 25,138

Investment in Shurgard Europe

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For all periods presented, we had a 49% equity investment in Shurgard Europe and our joint venture partner owns the remaining 51% interest. In addition, Shurgard Europe pays a license fee to us for the use of the “Shurgard” trademark and paid us interest on a shareholder loan until it was repaid in July 2014 (see Note 5).

Changes in foreign currency exchange rates caused our investment in Shurgard Europe to decrease by approximately \$12.6 million and \$4.4 million during the six months ended June 30, 2015 and 2014, respectively.

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

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June 30, 2015

(Unaudited)

	June 30, 2015	December 31, 2014
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	\$ 1,503,889	\$ 1,404,246
Total debt to third parties	673,972	500,767
Other liabilities	113,046	180,546
Equity	716,871	722,933
Exchange rate of Euro to U.S. Dollar	1.110	1.216

	2015	2014
	(Amounts in thousands)	
For the six months ended June 30,		
Self-storage and ancillary revenues	\$ 112,683	\$ 128,567
Self-storage and ancillary cost of operations	(44,244)	(51,814)
Depreciation and amortization	(29,339)	(31,586)
General and administrative	(9,987)	(7,431)
Interest expense on third party debt	(6,929)	(2,157)
Trademark license fee payable to Public Storage	(1,128)	(1,287)
Interest expense on shareholder loan	-	(19,448)
Costs of acquiring facilities and other, net	(7,713)	1,691
Net income	\$ 13,343	\$ 16,535
Average exchange rates of Euro to the U.S. Dollar	1.116	1.371

As reflected in the table above, Shurgard Europe's net income has been reduced by expenses it pays to its shareholders, including a trademark license fee and interest expense on the shareholder loan for periods in which the loan was outstanding. During the six months ended June 30, 2015, Shurgard Europe incurred \$6.9 million in acquisition costs associated with the acquisition of real estate facilities, which is included in "Other" in the table above. The following table set forth the calculation of our equity in earnings in Shurgard Europe:

	2015	2014
	(Amounts in thousands)	
For the six months ended June 30,		
Calculation of equity in earnings of Shurgard Europe:		
Our 49% share of Shurgard Europe's net income	\$ 6,538	\$ 8,102
Adjustments:		
49% of trademark license fees	553	631
49% of interest on shareholder loan	-	9,530
Total equity in earnings of Shurgard Europe	\$ 7,091	\$ 18,263

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

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5. Loan Receivable from Unconsolidated Real Estate Entity

At December 31, 2013, we owned 100% of the shareholder loan due from Shurgard Europe, which had a balance of €311.0 million (\$428.1 million) and bore interest at 9.0% per annum. On January 28, 2014, our joint venture partner in Shurgard Europe acquired a 51% interest in the loan at face value for €158.6 million (\$216.2 million) in cash. In July 2014, Shurgard Europe fully repaid its €311.0 million shareholder loan, and accordingly, we received our 49% share of the loan totaling €152.4 million (\$204.9 million).

For the three and six months ended June 30, 2014, we recorded interest income with respect to this loan of nil and approximately \$1.5 million, respectively.

6. Credit Facility, Term Loan and Notes Payable

On March 31, 2015, we entered into an amended revolving credit agreement (the "Credit Facility"), which expires on March 31, 2020. The aggregate limit with respect to borrowings and letters of credit was increased from \$300 million to \$500 million. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.850% to LIBOR plus 1.450% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.850% at June 30, 2015). In addition, we are required to pay a quarterly facility fee ranging from 0.080% per annum to 0.250% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.080% per annum at June 30, 2015). At June 30, 2015, outstanding borrowings under this Credit Facility totaled \$11.0 million (none at December 31, 2014). At August 4, 2015, we had no outstanding borrowings under this Credit Facility. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$14.9 million at June 30, 2015 and \$13.9 million at December 31, 2014. The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at June 30, 2015.

On December 2, 2013, we borrowed \$700 million from Wells Fargo under an unsecured term loan (the "Term Loan"), and we fully repaid the borrowings by September 30, 2014. We incurred origination costs of \$1.9 million, which were amortized using the effective interest method through the date of extinguishment (\$0.4 million and \$1.5 million for the three and six months ended June 30, 2014, respectively).

The carrying amounts of our notes payable at June 30, 2015 and December 31, 2014, totaled \$47.7 million and \$64.4 million, respectively, with unamortized premium totaling \$0.2 million and \$0.6 million, respectively. These notes were assumed in connection with acquisitions of real estate facilities and recorded at fair value with any premium or discount over the stated note balance amortized using the effective interest method. At June 30, 2015, the notes are secured by 30 real estate facilities with a net book value of approximately \$128 million, have contractual interest rates between 2.9% and 7.1%, and mature between June 2016 and September 2028.

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At June 30, 2015, approximate principal maturities of our notes payable are \$1.2 million in the remainder of 2015, \$20.6 million in 2016, \$9.3 million in 2017, \$11.2 million in 2018, \$1.2 million in 2019 and \$4.2 million thereafter. The weighted average effective interest rate of our notes payable at June 30, 2015 was 4.1%.

Cash paid for interest totaled \$1.5 million and \$6.2 million for the six months ended June 30, 2015 and 2014, respectively. Interest capitalized as real estate totaled \$1.2 million and \$0.4 million for the six months ended June 30, 2015 and 2014, respectively.

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7. Noncontrolling Interests

At June 30, 2015, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 14 self-storage facilities and (ii) 231,978 partnership units held by third-parties 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 (collectively, the “Noncontrolling Interests”). At June 30, 2015, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the subsidiary. During the six months ended June 30, 2015 and 2014, we allocated a total of \$3.1 million and \$2.5 million of income, respectively, to these interests and we paid \$3.2 million and \$3.4 million in distributions, respectively, to these interests.

8. Shareholders' Equity

Preferred Shares

At June 30, 2015 and December 31, 2014, we had the following series of Cumulative Preferred Shares (“Preferred Shares”) outstanding:

Series	Earliest Redemption Date	Dividend Rate	At June 30, 2015		At December 31, 2014	
			Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
(Dollar amounts in thousands)						
Series O	4/15/2015	6.875%	-	\$ -	5,800	\$ 145,000
Series P	10/7/2015	6.500%	5,000	125,000	5,000	125,000
Series Q	4/14/2016	6.500%	15,000	375,000	15,000	375,000
Series R	7/26/2016	6.350%	19,500	487,500	19,500	487,500
Series S	1/12/2017	5.900%	18,400	460,000	18,400	460,000
Series T	3/13/2017	5.750%	18,500	462,500	18,500	462,500
Series U	6/15/2017	5.625%	11,500	287,500	11,500	287,500
Series V	9/20/2017	5.375%	19,800	495,000	19,800	495,000
Series W	1/16/2018	5.200%	20,000	500,000	20,000	500,000
Series X	3/13/2018	5.200%	9,000	225,000	9,000	225,000
Series Y	3/17/2019	6.375%	11,400	285,000	11,400	285,000
Series Z	6/4/2019	6.000%	11,500	287,500	11,500	287,500
Series A	12/2/2019	5.875%	7,600	190,000	7,600	190,000
Total Preferred Shares			167,200	\$ 4,180,000	173,000	\$ 4,325,000

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 (the "Board") until the arrearage has been cured. At June 30, 2015, there were no dividends in arrears.

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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, 2014, we issued an aggregate 22.9 million depositary shares, each representing 1/1,000 of a share of our Series Y and Series Z Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$572.5 million in gross proceeds, and we incurred \$17.4 million in issuance costs.

During the six months ended June 30, 2015, we redeemed our Series O Preferred Shares, at par. The redemption amount, before payment of accrued dividends, was \$145.0 million. We recorded a \$4.8 million EITF D-42 allocation of income from our common shareholders to the holders of our Preferred Shares in the six months ended June 30, 2015 in connection with this redemption.

Common share dividends, including amounts paid to our restricted share unitholders, totaled \$294.3 million (\$1.70 per share) and \$242.0 million (\$1.40 per share) for the three months ended June 30, 2015 and 2014, respectively, and \$536.6 million (\$3.10 per share) and \$483.7 million (\$2.80 per share), for the six months ended June 30, 2015 and 2014, respectively. Preferred share dividends totaled \$61.4 million and \$57.7 million for the three months ended June 30, 2015 and 2014, respectively, and \$125.0 million and \$110.2 million, for the six months ended June 30, 2015 and 2014, respectively.

9.Related Party Transactions

The Hughes Family owns approximately 15.0% of our common shares outstanding at June 30, 2015.

The Hughes Family has ownership interests in, and operates, approximately 54 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 to acquire the stock or assets of the corporation that manages the 54 self-storage facilities in Canada, if the Hughes Family or the corporation agrees to sell them. We reinsure risks relating to loss of goods stored by customers in these facilities. During each of the six month periods ended June 30, 2015 and 2014, we received \$0.2 million in reinsurance premiums attributed to these facilities. There is no assurance that these premiums will continue, as our rights to reinsure these risks could be withdrawn at any time.

10.Share-Based Compensation

Under various share-based compensation plans and under terms established by a committee of our Board, 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.

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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 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, 2015, we recorded \$0.8 million and \$1.5 million, respectively, in compensation expense related to stock options, as compared to \$0.7 million and \$1.3 million for the same periods in 2014.

During the six months ended June 30, 2015, 285,000 stock options were granted, 123,140 options were exercised and 115,000 options were forfeited. A total of 2,132,404 stock options were outstanding at June 30, 2015 (2,085,544 at December 31, 2014).

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, 2015, 127,030 RSUs were granted, 47,985 RSUs were forfeited and 164,256 RSUs vested. This vesting resulted in the issuance of 96,016 common shares. In addition, tax deposits totaling \$13.6 million were made on behalf of employees in exchange for 68,240 common shares withheld upon vesting.

RSUs outstanding at June 30, 2015 and December 31, 2014 were 665,837 and 751,048, respectively. A total of \$6.6 million and \$13.0 million in RSU expense was recorded for the three and six months ended June 30, 2015, respectively, which includes approximately \$0.1 million and \$1.0 million, respectively, in employer taxes incurred

upon vesting, as compared to \$6.4 million and \$12.0 million for the same periods in 2014, which includes approximately \$0.1 million and \$1.1 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 share and income allocated to common shareholders.

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June 30, 2015

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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 of each reportable segment prior to depreciation and amortization, gains or losses on disposition of real estate facilities, and asset impairment charges, and does not consider the book value of assets. The net income for each reportable segment included in the tables below are in conformity with GAAP and our significant accounting policies as denoted in Note 2. The amounts with respect to non-reportable segments are aggregated under “other items not allocated to segments.” 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 2,250 self-storage facilities owned by the Company and the Subsidiaries, as well as our equity share of 13 self-storage facilities owned by the Other Investments. The Domestic Self-Storage segment presentation includes the revenues, cost of operations, and depreciation expense of our self-storage facilities, as well as our equity in earnings 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.

European Self-Storage Segment

The European Self-Storage segment comprises our interest in Shurgard Europe (Note 4), which has a separate management team reporting directly to our CODM and our joint venture partner. The European Self-Storage segment presentation 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. At June 30, 2015, the assets of the European Self-Storage segment are comprised of our investment in Shurgard Europe. Prior to July 2014, we also had a loan receivable from Shurgard Europe (Note 5).

Commercial Segment

The Commercial segment comprises (i) our investment in PSB (Note 4), a publicly-traded REIT with a separate management team that makes its financing, capital allocation and other significant decisions, as well as (ii) certain commercial facilities we own, substantially all of which are managed by PSB. The Commercial segment presentation includes our equity earnings from PSB, as well as the revenues and expenses of our commercial facilities. At June 30, 2015, the assets of the Commercial segment are comprised principally of our investment in PSB.

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Presentation of Segment Information

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

Three months ended June 30, 2015

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
(Amounts in thousands)					
Revenues:					
Self-storage facilities	\$ 551,028	\$ -	\$ -	\$ -	\$ 551,028
Ancillary operations	-	-	3,378	38,225	41,603
	551,028	-	3,378	38,225	592,631
Expenses:					
Self-storage cost of operations	147,826	-	-	-	147,826
Ancillary cost of operations	-	-	1,096	13,310	14,406
Depreciation and amortization	105,877	-	596	-	106,473
General and administrative	-	-	-	20,988	20,988
	253,703	-	1,692	34,298	289,693
Operating income	297,325	-	1,686	3,927	302,938
Interest and other income	-	289	-	645	934
Equity in earnings of unconsolidated real estate entities	609	1,355	5,516	-	7,480
Gain on real estate sales	16,688	-	-	-	16,688

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Net income	\$ 314,622	\$ 1,644	\$ 7,202	\$ 4,572	\$ 328,040
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June 30, 2015

(Unaudited)

Three months ended June 30, 2014

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
(Amounts in thousands)					
Revenues:					
Self-storage facilities	\$ 500,803	\$ -	\$ -	\$ -	\$ 500,803
Ancillary operations	-	-	3,966	33,268	37,234
	500,803	-	3,966	33,268	538,037
Expenses:					
Self-storage cost of operations	142,427	-	-	-	142,427
Ancillary cost of operations	-	-	1,293	6,834	8,127
Depreciation and amortization	105,710	-	733	-	106,443
General and administrative	-	-	-	15,377	15,377
	248,137	-	2,026	22,211	272,374
Operating income	252,666	-	1,940	11,057	265,663
Interest and other income	-	332	-	668	1,000
Interest expense	-	-	-	(2,063)	(2,063)
Equity in earnings of unconsolidated real estate entities	441	9,379	4,315	-	14,135
Foreign currency exchange loss	-	(1,675)	-	-	(1,675)
Gain on real estate sales	1,219	-	-	-	1,219
Net income	\$ 254,326	\$ 8,036	\$ 6,255	\$ 9,662	\$ 278,279

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June 30, 2015

(Unaudited)

Six months ended June 30, 2015

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
(Amounts in thousands)					
Revenues:					
Self-storage facilities	\$ 1,081,665	\$ -	\$ -	\$ -	\$ 1,081,665
Ancillary operations	-	-	7,288	73,072	80,360
	1,081,665	-	7,288	73,072	1,162,025
Expenses:					
Self-storage cost of operations	309,068	-	-	-	309,068
Ancillary cost of operations	-	-	2,208	24,118	26,326
Depreciation and amortization	212,417	-	1,202	-	213,619
General and administrative	-	-	-	45,148	45,148
	521,485	-	3,410	69,266	594,161
Operating income	560,180	-	3,878	3,806	567,864
Interest and other income	-	575	-	1,031	1,606
Equity in earnings of unconsolidated real estate entities	1,162	7,091	15,411	-	23,664
Gain on real estate sales	18,160	-	-	-	18,160
Net income	\$ 579,502	\$ 7,666	\$ 19,289	\$ 4,837	\$ 611,294

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June 30, 2015

(Unaudited)

Six months ended June 30, 2014

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
(Amounts in thousands)					
Revenues:					
Self-storage facilities	\$ 986,390	\$ -	\$ -	\$ -	\$ 986,390
Ancillary operations	-	-	7,971	63,300	71,271
	986,390	-	7,971	63,300	1,057,661
Expenses:					
Self-storage cost of operations	298,495	-	-	-	298,495
Ancillary cost of operations	-	-	2,608	23,970	26,578
Depreciation and amortization	214,043	-	1,421	-	215,464
General and administrative	-	-	-	34,366	34,366
	512,538	-	4,029	58,336	574,903
Operating income	473,852	-	3,942	4,964	482,758
Interest and other income	-	2,194	-	1,208	3,402
Interest expense	-	-	-	(5,543)	(5,543)
Equity in earnings of unconsolidated real estate entities	824	18,263	9,652	-	28,739
Foreign currency exchange loss	-	(4,023)	-	-	(4,023)
Gain on real estate sales	1,219	-	-	-	1,219
Net income	\$ 475,895	\$ 16,434	\$ 13,594	\$ 629	\$ 506,552

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(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 customers 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, 2015, there were approximately 893,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.5 billion.

13. Subsequent Events

We are currently under contract to acquire nine self-storage facilities (three in Colorado and six in Florida) with 0.7 million net rentable square feet for \$96.7 million.

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 (the "SEC") on February 25, 2015 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 tax, real estate and zoning laws and regulations;
- 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 customers;
- 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 and developed facilities;
- risks related to our development of new facilities and/or participation in joint ventures;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations and local and global economic uncertainty that could adversely affect our earnings and cash flows;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing the environment, taxes and our tenant reinsurance business and real estate investment trusts ("REITs"), and risks related to the impact of new laws and regulations;
- 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 or state tax laws related to the taxation of REITs, which could impact our status as a REIT;
- security breaches or a failure of our networks, systems or technology could adversely impact our business, customer and employee relationships;

- risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;
- difficulties in raising capital at a reasonable cost; 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 nor 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, 2015 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 REIT, as defined in the Internal Revenue Code of 1986, as amended (the “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 not be reasonable when compared to 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.

Accrual for Uncertain and Contingent Liabilities: We accrue for certain contingent and other liabilities that have significant uncertain elements, such as property taxes, workers compensation claims, tenant reinsurance claims, as well as other legal claims and disputes involving customers, employees, governmental agencies and other third parties. Such liabilities we are aware of are estimated based upon many factors such as assumptions of past

and future trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be misstated.

Accounting for acquired real estate facilities: We estimate the fair values of the land, buildings and intangible assets acquired, for purposes of allocating the purchase price of facilities acquired. Such estimates are based upon many assumptions and judgments, including (i) expected rates of return and capitalization rates on real estate assets, (ii) estimated costs to replace acquired buildings and equipment, (iii) comparisons of the acquired underlying land parcels to recent land transactions, and (iv) future cash flows from the real estate 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 most of our revenues, cost of operations and net income for the six months ended June 30, 2015. Accordingly, a significant portion of management's time is devoted to maximizing cash flows from our existing self-storage facilities, 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.

During 2014, we acquired 44 facilities for approximately \$431 million, primarily through large portfolio acquisitions. During the six months ended June 30, 2015, we acquired eight self-storage facilities for \$72.2 million. We are under contract to acquire nine self-storage facilities (three in Colorado and six in Florida) with 0.7 million net rentable square feet for \$96.7 million. We will continue to seek to acquire facilities in the remainder of 2015; however, there is significant competition to acquire existing facilities and there can be no assurance as to the number of facilities we may acquire.

Since the beginning of 2013, we opened development and expansion projects with a total cost of \$243 million, and as of June 30, 2015, we had additional projects which will add approximately 3.9 million net rentable square feet of storage space at a total cost of approximately \$479 million. A total of \$145 million in costs were incurred through June 30, 2015 with respect to these projects, with the remaining costs expected to be incurred primarily in the next 18 months. 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 that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We believe that our real estate development activities are beneficial to our business operations over the long run. However, in the short run, due to the three to four year period that it takes to fill up newly developed storage space to achieve a stabilized level of cash flows, our earnings are diluted because earnings from those newly developed and expanded facilities are less than the cost of the capital required in order to fund the development cost. We believe that this dilution will grow in the remainder of 2015 and beyond due to the resulting level of growth of unstabilized facilities in our portfolio.

We also have equity investments in Shurgard Europe and PS Business Parks, Inc. ("PSB"). We may make further investments in these companies.

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As of June 30, 2015, we have liquid capital resources in excess of \$700 million, and planned capital needs over the next year totaling approximately \$450 million. Our liquid capital resources are comprised of \$474 million of available borrowing capacity on our line of credit and \$250 million of expected retained operating cash flow for the next twelve months. Retained operating cash flow represents our expected cash flow provided by operating

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activities, less shareholder distributions and capital expenditures to maintain real estate facilities. Our planned capital needs consist of \$334 million of remaining spend on our development pipeline, \$97 million in property acquisitions, and \$19 million in debt repayment. We expect that our planned capital needs will continue to grow as we continue to seek additional development and acquisition opportunities. We may redeem our outstanding 6.50% Series P Preferred Shares later in 2015 at par for \$125 million. We believe that we have access to additional debt or equity capital if needed to fund such future commitments.

See Liquidity and Capital Resources for further information regarding our capital requirements and anticipated sources of capital to fund such requirements.

Results of Operations

Operating results for the Three and Six Months Ended June 30, 2015 and 2014

For the three months ended June 30, 2015, net income allocable to our common shareholders was \$263.9 million or \$1.52 per diluted common share, compared to \$218.4 million or \$1.26 per diluted common share for the same period in 2014, representing an increase of \$45.5 million or \$0.26 per diluted common share. The increase is primarily due to a \$44.8 million increase in self-storage operating income, as a result of a \$29.6 million increase for our Same Store Facilities and a \$15.2 million increase for our Non Same Store Facilities.

For the six months ended June 30, 2015, net income allocable to our common shareholders was \$476.5 million or \$2.75 per diluted common share, compared to \$392.4 million or \$2.27 per diluted common share for the same period in 2014, representing an increase of \$84.1 million or \$0.48 per diluted common share. The increase is primarily due to an \$84.7 million increase in self-storage operating income, as a result of a \$55.0 million increase for our Same Store Facilities and a \$29.7 million increase for our Non Same Store Facilities.

Funds from Operations (“FFO”) and FFO per share are non-GAAP measures defined by the National Association of Real Estate Investment Trusts and are considered helpful measures of REIT performance by REITs and many REIT analysts. FFO represents net income before real estate depreciation, gains and losses, and impairment charges, which are excluded because they are based upon historical real estate costs and assume that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. FFO and FFO per share are not a substitute for net income or earnings per share. FFO is not a substitute for GAAP net cash flow in evaluating our liquidity or ability to pay dividends, because it excludes financing activities presented on our statements of cash flows. In addition, other REITs may compute these measures differently, so comparisons among REITs may not be helpful.

For the three months ended June 30, 2015, FFO was \$2.15 per diluted common share, as compared to \$1.99 for the same period in 2014, representing an increase of 8.0%, or \$0.16 per diluted common share.

For the six months ended June 30, 2015, FFO was \$4.06 per diluted common share, as compared to \$3.73 for the same period in 2014, representing an increase of 8.8%, or \$0.33 per diluted common share.

The following tables reconcile diluted earnings per share to FFO per share and set forth the computation of FFO per share:

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014

(Amounts in thousands, except per share data)

Reconciliation of Diluted Earnings per Share to FFO per Share:

Diluted Earnings per Share	\$ 1.52	\$ 1.26	\$ 2.75	\$ 2.27
Eliminate amounts per share excluded from FFO:				
Depreciation and amortization, including amounts from investments and excluding amounts allocated to noncontrolling interests and restricted share unitholders	0.72	0.74	1.44	1.47
Gains on sale of real estate investments, including our equity share from investments, and other	(0.09)	(0.01)	(0.13)	(0.01)
FFO per share	\$ 2.15	\$ 1.99	\$ 4.06	\$ 3.73

Computation of FFO per Share:

Net income allocable to common shareholders	\$ 263,926	\$ 218,352	\$ 476,539	\$ 392,404
Eliminate items excluded from FFO:				
Depreciation and amortization	106,473	106,443	213,619	215,464
Depreciation from unconsolidated real estate investments	19,035	21,062	37,816	40,733
Depreciation allocated to noncontrolling interests and restricted share unitholders	(828)	(811)	(1,755)	(1,939)
Gains on sale of real estate investments, including our equity share from investments, and other	(16,625)	(1,205)	(23,103)	(1,292)
FFO allocable to common shares	\$ 371,981	\$ 343,841	\$ 703,116	\$ 645,370
Diluted weighted average common shares	173,387	173,181	173,377	172,995
FFO per share	\$ 2.15	\$ 1.99	\$ 4.06	\$ 3.73

We also present "Core FFO per share," a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange gains and losses, (ii) EITF D-42 charges related to the redemption of preferred securities, (iii) property acquisition costs incurred and (iv) certain other items. We believe Core FFO per share is a helpful measure used by investors and REIT analysts to understand our performance. However, Core FFO per share is not a substitute for net income per share. Because other REITs may not compute Core FFO per share in the same manner as we do, may not use the same terminology, or may not present such a measure, Core FFO per share may not be comparable among REITs.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
FFO per share	\$ 2.15	\$ 1.99	8.0%	\$ 4.06	\$ 3.73	8.8%
Eliminate the per share impact of items excluded from Core FFO:						
Foreign currency exchange loss	-	0.01		-	0.02	
Application of EITF D-42	-	-		0.03	-	
Property acquisition costs	0.02	-		0.02	0.01	
Other items	-	(0.03)		-	0.02	
Core FFO per share	\$ 2.17	\$ 1.97	10.2%	\$ 4.11	\$ 3.78	8.7%

Real Estate Operations

Self-Storage Operations: 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, 2013 (the “Same Store Facilities”), 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,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
	(Dollar amounts in thousands)					
Revenues:						
Same Store Facilities	\$ 487,206	\$ 456,203	6.8%	\$ 957,998	\$ 900,051	6.4%
Non Same Store Facilities	63,822	44,600	43.1%	123,667	86,339	43.2%
	551,028	500,803	10.0%	1,081,665	986,390	9.7%
Cost of operations:						
Same Store Facilities	129,073	127,717	1.1%	271,070	268,146	1.1%
Non Same Store Facilities	18,753	14,710	27.5%	37,998	30,349	25.2%
	147,826	142,427	3.8%	309,068	298,495	3.5%
Net operating income (a):						
Same Store Facilities	358,133	328,486	9.0%	686,928	631,905	8.7%
Non Same Store Facilities	45,069	29,890	50.8%	85,669	55,990	53.0%
Total net operating income	403,202	358,376	12.5%	772,597	687,895	12.3%
Total depreciation and amortization expense:						
Same Store Facilities	(80,971)	(80,068)	1.1%	(161,368)	(161,456)	(0.1)%
Non Same Store Facilities	(24,906)	(25,642)	(2.9)%	(51,049)	(52,587)	(2.9)%
Total depreciation and amortization expense (b)	(105,877)	(105,710)	0.2%	(212,417)	(214,043)	(0.8)%
Operating income from self-storage:						
Same Store Facilities	277,162	248,418	11.6%	525,560	470,449	11.7%
Non Same Store Facilities	20,163	4,248	374.6%	34,620	3,403	917.3%
Operating income from self-storage (c)	\$ 297,325	\$ 252,666	17.7%	\$ 560,180	\$ 473,852	18.2%
Number of facilities at period end:						
Same Store Facilities				1,990	1,990	-
Non Same Store Facilities				260	205	26.8%
Net rentable square footage at period end (in thousands):						
Same Store Facilities				126,347	126,347	-

Non Same Store Facilities	19,536	14,706	32.8%
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- (a) See “Net Operating Income” below for further information regarding this non-GAAP measure.
- (b) See “Reconciliation of Depreciation and Amortization Expense and Operating Income” below for a reconciliation of the Depreciation and Amortization expense from self-storage herein, to Depreciation and Amortization expense on our Statements of Income.
- (c) See “Reconciliation of Depreciation and Amortization Expense and Operating Income” below for a reconciliation of the Operating Income from self-storage herein, to Operating Income on our Statements of Income.

Operating income from our self-storage operations has increased 17.7% and 18.2% in the three and six months ended June 30, 2015 as compared to the same periods in 2014. This increase is due to improvements in our Same Store Facilities, as well as the acquisitions of new facilities and the fill-up of unstabilized facilities.

Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated on a stabilized basis since January 1, 2013 and therefore provide meaningful comparisons for 2014 and 2015. Due to significant disruptions at certain facilities in the Houston market due to flooding, our same store pool decreased from 2,000 facilities at March 31, 2015 to 1,990 facilities at June 30, 2015. The following table summarizes the historical operating results of these 1,990 facilities (126.3 million net rentable square feet) that represent approximately 87% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at June 30, 2015.

Selected Operating Data for the Same Store Facilities (1,990 facilities)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
(Dollar amounts in thousands, except weighted average amounts)						
Revenues:						
Rental income	\$ 465,196	\$ 434,616	7.0%	\$ 914,043	\$ 856,213	6.8%
Late charges and administrative fees	22,010	21,587	2.0%	43,955	43,838	0.3%
Total revenues (a)	487,206	456,203	6.8%	957,998	900,051	6.4%
Cost of operations:						
Property taxes	49,821	47,452	5.0%	99,793	95,419	4.6%
On-site property manager payroll	25,185	25,326	(0.6)%	52,045	52,424	(0.7)%
Supervisory payroll	8,999	8,783	2.5%	17,995	17,690	1.7%
Repairs and maintenance	8,935	9,510	(6.0)%	24,935	24,333	2.5%
Utilities	9,102	9,231	(1.4)%	19,585	19,954	(1.8)%
Advertising and selling expense	5,500	6,093	(9.7)%	11,663	12,637	(7.7)%
Other direct property costs	13,244	12,972	2.1%	26,203	25,478	2.8%
Allocated overhead	8,287	8,350	(0.8)%	18,851	20,211	(6.7)%
Total cost of operations (a)	129,073	127,717	1.1%	271,070	268,146	1.1%
Net operating income (b)	358,133	328,486	9.0%	686,928	631,905	8.7%
Depreciation and amortization expense	(80,971)	(80,068)	1.1%	(161,368)	(161,456)	(0.1)%
Operating income from Same Store Facilities	\$ 277,162	\$ 248,418	11.6%	\$ 525,560	\$ 470,449	11.7%

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Gross margin (before depreciation and amortization)	73.5%	72.0%	2.1%	71.7%	70.2%	2.1%
Weighted average for the period:						
Square foot occupancy	95.4%	94.7%	0.7%	94.4%	93.6%	0.9%
Realized annual rental income per (c):						
Occupied square foot	\$ 15.44	\$ 14.53	6.3%	\$ 15.33	\$ 14.48	5.9%
Available square foot	\$ 14.73	\$ 13.76	7.0%	\$ 14.47	\$ 13.55	6.8%
At June 30:						
Square foot occupancy				95.7%	95.1%	0.6%
Annual contract rent per occupied square foot (d)				\$ 16.25	\$ 15.31	6.1%

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- (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 Statements of Income.
- (c) Realized annual rent per occupied square foot is computed by dividing 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 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.
- (d) Annual contract rent represents the applicable annualized 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 6.8% in the three months ended June 30, 2015 as compared to the same period in 2014 due primarily to a 6.3% increase in realized annual rental income per occupied square foot and a 0.7% increase in weighted average square foot occupancy. Revenues generated by our Same Store Facilities increased by 6.4% in the six months ended June 30, 2015 as compared to the same period in 2014 due primarily to a 5.9% increase in realized annual rental income per occupied square foot and a 0.9% increase in weighted average square foot occupancy. The increase in realized annual rental income per occupied square foot was due primarily to annual rent increases given to existing tenants and to a lesser extent, increased move-in rental rates.

Same Store weighted average square foot occupancy increased from 94.7% in the three months ended June 30, 2014 to 95.4% in the three months ended June 30, 2015, representing an increase of 0.7%. Same Store weighted average square foot occupancy increased from 93.6% in the six months ended June 30, 2014 to 94.4% in the six months ended June 30, 2015, representing an increase of 0.9%. At June 30, 2015, the year-over-year occupancy gap was 0.6%. We expect the year over year occupancy gap to narrow because we believe we are reaching limitations to occupancy levels inherent with approximately 5% to 7% of our tenant base vacating each month without notice.

We believe that high occupancies help maximize our rental income. We seek to maintain a weighted average square foot 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.

We believe rental growth in the remainder of 2015 will need to come from a combination of the following: (i) continued annual rent increases to tenants, (ii) higher rental rates charged to new tenants, (iii) lower promotional discounts and, to a lesser extent, (iv) higher occupancies. Our future rental growth will also 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 and the average length of stay of our tenants.

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. We expect rent increases to existing tenants for the remainder of 2015 to be similar to the prior year.

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During the three months ended June 30, 2015 and 2014, the average annualized contractual rates per occupied square foot for tenants that moved in were \$14.87 and \$13.73, respectively, and for tenants that vacated were \$14.64 and \$13.96, respectively. During the six months ended June 30, 2015 and 2014, the average

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annualized contractual rates per occupied square foot for tenants that moved in were \$14.25 and \$13.33, respectively, and for tenants that vacated were \$14.57 and \$13.93, respectively. Realized annual rental income per square foot increased in the three and six months ended June 30, 2015 as compared to the same periods in 2014, despite vacate rental rates generally exceeding move-in rates, due primarily to rate increases to existing tenants. The percentage of new tenants receiving promotional discounts in the three and six months ended June 30, 2015 was flat as compared to the same periods in 2014.

We believe that the current trends in move-in, move-out, in place contractual rents and occupancy levels are consistent with our expectation of continued revenue growth in the remainder of 2015. 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) increased 1.1% in each of the three and six months ended June 30, 2015 as compared to the same periods in 2014, due primarily to increased property tax expense.

Property tax expense increased 5.0% and 4.6% in the three and six months ended June 30, 2015 as compared to the same periods in 2014, due primarily to higher assessed values and tax rates. We expect property tax expense growth of approximately 5% in the remainder of 2015.

On-site property manager payroll expense decreased 0.6% and 0.7% in the three and six months ended June 30, 2015 as compared to the same periods in 2014. The decrease in the three month period was due primarily to reduced workers compensation costs, and the decrease in the six month period was due to reduced hours worked due to staffing efficiencies, offset partially by higher wage rates. We expect on-site property manager payroll expense to increase modestly in the remainder of 2015 due to inflationary wage increases.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 2.5% and 1.7% in the three and six months ended June 30, 2015 as compared to the same periods in 2014 due primarily to higher wage rates and, in the case of the three month period, increased headcount. We expect inflationary increases in compensation rates and increased headcount in the remainder of 2015.

Repairs and maintenance expense decreased 6.0% and increased 2.5% in the three and six months ended June 30, 2015 as compared to the same periods in 2014. Repair and maintenance costs include snow removal expense totaling \$8.4 million and \$7.2 million in the six months ended June 30, 2015 and 2014, respectively. Excluding snow removal costs, repairs and maintenance decreased 3.0% in the six months ended June 30, 2015 as compared to the same period in 2014.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs including snow removal, inflation in material and labor costs, and random events. We expect inflationary increases in repairs and maintenance expense in the remainder of 2015, excluding snow removal expense, which is primarily weather dependent and not predictable.

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 expense decreased 1.4% and 1.8% in the three and six months ended June 30, 2015 as compared to the same periods in 2014. It is difficult to

estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable. However, based upon current trends and expectations regarding commercial electricity rates, we expect inflationary increases in rates.

Advertising and selling expense is comprised principally of Internet advertising, television advertising and the operating costs of our telephone reservation center. Advertising and selling expense varies based upon demand, occupancy levels, and other factors; television and Internet advertising, in particular, can increase or decrease significantly in the short run in response to these factors. Advertising and selling expenses decreased 9.7% and 7.7% in the three and six months ended June 30, 2015 as compared to the same periods in 2014. Based upon current trends in move-ins, move-outs, and occupancies, we expect advertising and selling expense to be approximately flat in the remainder of 2015.

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 facilities' cash receipts, credit card fees, and the cost of operating each property's rental office including supplies and telephone data communication lines. These costs increased 2.1% and 2.8% in the three and six months ended June 30, 2015 as compared to the same periods in 2014, due primarily to higher credit card fees. Credit card fees increased due to a higher proportion of collections being received from credit cards. We expect moderate increases in other direct property costs in the remainder of 2015.

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 0.8% and 6.7% in the three and six months ended June 30, 2015 as compared to the same periods in 2014, due to an acceleration of the timing of our annual field staff meetings to the fourth quarter of 2014, which would normally have occurred during the first quarter of 2015. We expect inflationary growth in allocated overhead in the remainder of 2015 as compared to the same period in 2014.

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:					
2015	\$ 470,792	\$ 487,206			
2014	\$ 443,848	\$ 456,203	\$ 479,889	\$ 471,729	\$ 1,851,669
Total cost of operations:					
2015	\$ 141,997	\$ 129,073			
2014	\$ 140,429	\$ 127,717	\$ 129,709	\$ 104,560	\$ 502,415
Property taxes:					
2015	\$ 49,972	\$ 49,821			
2014	\$ 47,967	\$ 47,452	\$ 46,554	\$ 28,037	\$ 170,010
Repairs and maintenance:					
2015	\$ 16,000	\$ 8,935			
2014	\$ 14,823	\$ 9,510	\$ 9,938	\$ 9,397	\$ 43,668
Advertising and selling expense:					
2015	\$ 6,163	\$ 5,500			
2014	\$ 6,544	\$ 6,093	\$ 7,844	\$ 6,430	\$ 26,911
REVPAF:					
2015	\$ 14.21	\$ 14.73			
2014	\$ 13.35	\$ 13.76	\$ 14.46	\$ 14.24	\$ 13.95
Weighted average realized annual rent per occupied square foot:					
2015	\$ 15.21	\$ 15.44			
2014	\$ 14.41	\$ 14.53	\$ 15.27	\$ 15.23	\$ 14.86
Weighted average occupancy levels for the period:					
2015	93.4%	95.4%			
2014	92.6%	94.7%	94.7%	93.5%	93.9%

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,		
	2015	2014	Change	2015	2014	Change
(Amounts in thousands, except for weighted average data)						
Revenues:						
Los Angeles (205 facilities)	\$ 74,357	\$ 68,773	8.1%	\$ 146,420	\$ 135,861	7.8%
San Francisco (127 facilities)	41,282	38,010	8.6%	81,045	74,846	8.3%
New York (82 facilities)	32,005	30,382	5.3%	63,040	60,107	4.9%
Chicago (128 facilities)	29,086	27,847	4.4%	57,289	54,905	4.3%
Washington DC (75 facilities)	22,692	22,099	2.7%	44,595	43,560	2.4%
Seattle-Tacoma (83 facilities)	22,878	21,276	7.5%	44,832	41,766	7.3%
Miami (65 facilities)	21,468	20,150	6.5%	42,556	39,929	6.6%
Dallas-Ft. Worth (97 facilities)	19,265	17,764	8.4%	37,746	35,107	7.5%
Houston (75 facilities)	17,013	15,678	8.5%	33,484	30,957	8.2%
Atlanta (90 facilities)	16,462	15,405	6.9%	32,487	30,567	6.3%
Philadelphia (55 facilities)	11,970	11,476	4.3%	23,589	22,730	3.8%
Denver (45 facilities)	11,426	10,227	11.7%	22,144	19,934	11.1%
Minneapolis-St Paul (41 facilities)	9,267	8,993	3.0%	18,045	17,477	3.2%
Portland (42 facilities)	8,983	8,098	10.9%	17,435	15,838	10.1%
Orlando-Daytona (47 facilities)	8,442	7,796	8.3%	16,643	15,486	7.5%
All other markets (733 facilities)	140,610	132,229	6.3%	276,648	260,981	6.0%
Total revenues	\$ 487,206	\$ 456,203	6.8%	\$ 957,998	\$ 900,051	6.4%
Net operating income:						
Los Angeles	\$ 60,708	\$ 54,976	10.4%	\$ 118,217	\$ 107,189	10.3%
San Francisco	33,630	30,124	11.6%	65,323	58,638	11.4%
New York	22,959	21,411	7.2%	42,673	40,457	5.5%
Chicago	17,172	16,068	6.9%	30,939	28,417	8.9%
Washington DC	17,186	16,916	1.6%	32,973	32,507	1.4%
Seattle-Tacoma	17,868	16,397	9.0%	34,667	31,778	9.1%
Miami	15,060	13,960	7.9%	29,449	27,146	8.5%
Dallas-Ft. Worth	13,087	11,878	10.2%	25,248	23,294	8.4%
Houston	12,120	10,848	11.7%	23,667	21,243	11.4%
Atlanta	11,766	10,860	8.3%	22,976	21,293	7.9%
Philadelphia	8,601	8,204	4.8%	15,703	14,980	4.8%
Denver	8,576	7,484	14.6%	16,091	14,242	13.0%
Minneapolis-St. Paul	6,397	6,078	5.2%	12,147	11,137	9.1%
Portland	6,968	6,014	15.9%	13,310	11,650	14.2%
Orlando-Daytona	5,796	5,209	11.3%	11,282	10,244	10.1%

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All other markets	100,239	92,059	8.9%	192,263	177,690	8.2%
Total net operating income	\$ 358,133	\$ 328,486	9.0%	\$ 686,928	\$ 631,905	8.7%

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Same Store Facilities Operating Trends by Market (Continued)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Weighted average square foot occupancy:						
occupancy:						
Los Angeles	96.0%	94.6%	1.5%	95.4%	93.9%	1.6%
San Francisco	96.7%	95.5%	1.3%	96.1%	94.8%	1.4%
New York	95.6%	94.6%	1.1%	94.6%	93.6%	1.1%
Chicago	94.1%	94.5%	(0.4)%	92.8%	93.1%	(0.3)%
Washington DC	95.0%	94.1%	1.0%	93.1%	92.6%	0.5%
Seattle-Tacoma	96.0%	94.8%	1.3%	94.9%	93.6%	1.4%
Miami	95.1%	94.9%	0.2%	94.8%	94.5%	0.3%
Dallas-Ft. Worth	95.8%	94.9%	0.9%	94.8%	94.1%	0.7%
Houston	95.0%	94.6%	0.4%	94.3%	94.0%	0.3%
Atlanta	95.0%	93.7%	1.4%	94.1%	92.8%	1.4%
Philadelphia	94.5%	94.6%	(0.1)%	93.4%	93.7%	(0.3)%
Denver	96.9%	96.5%	0.4%	95.8%	94.9%	0.9%
Minneapolis-St. Paul	95.4%	95.9%	(0.5)%	92.7%	93.6%	(1.0)%
Portland	97.3%	96.7%	0.6%	96.3%	95.3%	1.0%
Orlando-Daytona	95.5%	93.3%	2.4%	95.0%	93.1%	2.0%
All other markets	95.1%	94.5%	0.6%	94.1%	93.4%	0.7%
Total weighted average occupancy	95.4%	94.7%	0.7%	94.4%	93.6%	0.9%
Realized annual rent per occupied square foot:						
Los Angeles	\$ 21.24	\$ 19.90	6.7%	\$ 21.03	\$ 19.79	6.3%
San Francisco	22.53	20.95	7.5%	22.26	20.79	7.1%
New York	23.09	22.08	4.6%	22.95	22.06	4.0%
Chicago	14.69	14.00	4.9%	14.67	13.98	4.9%
Washington DC	20.48	20.26	1.1%	20.56	20.26	1.5%
Seattle-Tacoma	16.64	15.65	6.3%	16.50	15.55	6.1%
Miami	18.48	17.35	6.5%	18.37	17.22	6.7%
Dallas-Ft. Worth	12.39	11.48	7.9%	12.26	11.42	7.4%
Houston	13.07	12.09	8.1%	12.96	11.98	8.2%
Atlanta	11.06	10.47	5.6%	11.00	10.44	5.4%
Philadelphia	14.12	13.45	5.0%	14.05	13.42	4.7%
Denver	15.41	13.77	11.9%	15.08	13.63	10.6%
Minneapolis-St. Paul	13.17	12.69	3.8%	13.20	12.62	4.6%
Portland	16.14	14.61	10.5%	15.83	14.48	9.3%
Orlando-Daytona	11.80	11.09	6.4%	11.67	11.02	5.9%
All other markets	12.37	11.67	6.0%	12.29	11.64	5.6%
Total realized rent per square foot	\$ 15.44	\$ 14.53	6.3%	\$ 15.33	\$ 14.48	5.9%

Same Store Facilities Operating Trends by
Market (Continued)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
REVPAF:						
Los Angeles	\$ 20.39	\$ 18.82	8.3%	\$ 20.07	\$ 18.58	8.0%
San Francisco	21.79	20.02	8.8%	21.38	19.70	8.5%
New York	22.08	20.90	5.6%	21.72	20.65	5.2%
Chicago	13.83	13.22	4.6%	13.62		