Public Storage
Form 10-Q
August 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from to .

Commission File Number: 001-33519

PUBLIC STORAGE
(Exact name of registrant as specified in its charter)

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

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

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

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

[ ] Yes [X] No

Indicate the number of the registrant’s outstanding common shares of beneficial interest, as of August 1, 2014:

Common Shares of beneficial interest, $.10 par value per share – 172,640,278 shares

PUBLIC STORAGE

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PUBLIC STORAGE

BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 387,983	$ 19,169
Real estate facilities, at cost:		
Land	3,337,320	3,321,236
Buildings	9,056,865	8,965,020
	12,394,185	12,286,256
Accumulated depreciation	(4,287,703)	(4,098,814)
	8,106,482	8,187,442
Construction in process	60,561	52,336
	8,167,043	8,239,778
Investments in unconsolidated real estate entities	854,759	856,182
Goodwill and other intangible assets, net	225,097	246,854
Loan receivable from Shurgard Europe	207,928	428,139
Other assets	103,647	86,144
Total assets	$ 9,946,457	$ 9,876,266
LIABILITIES AND EQUITY		
Borrowings on bank credit facility	$ -	$ 50,100
Term loan	322,000	700,000
Notes payable	74,987	88,953
Accrued and other liabilities	237,985	218,358
Total liabilities	634,972	1,057,411
Commitments and contingencies (Note 12)		

Equity:		
Public Storage shareholders' equity:		
Preferred Shares, $0.01 par value, 100,000,000 shares authorized, 165,400 shares issued (in series) and outstanding, (142,500 at December 31, 2013), at liquidation preference	4,135,000	3,562,500
Common Shares, $0.10 par value, 650,000,000 shares authorized, 172,339,168 shares issued and outstanding (171,776,291 shares at December 31, 2013)	17,234	17,178
Paid-in capital	5,545,947	5,531,034
Accumulated deficit	(408,375)	(318,482)
Accumulated other comprehensive loss	(4,568)	(500)
Total Public Storage shareholders' equity	9,285,238	8,791,730
Noncontrolling interests	26,247	27,125
Total equity	9,311,485	8,818,855
Total liabilities and equity	$ 9,946,457	$ 9,876,266

See accompanying notes.

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PUBLIC STORAGE

STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Self-storage facilities	$ 500,803	$ 451,576	$ 986,390	$ 891,241
Ancillary operations	37,234	33,802	71,271	65,037
	538,037	485,378	1,057,661	956,278
Expenses:				
Self-storage cost of operations	142,427	132,137	298,495	273,130
Ancillary cost of operations	8,127	10,434	26,578	19,830
Depreciation and amortization	106,443	90,937	215,464	181,938
General and administrative	15,377	14,085	34,366	32,338
	272,374	247,593	574,903	507,236
Operating income	265,663	237,785	482,758	449,042
Interest and other income	1,000	5,516	3,402	11,097
Interest expense	(2,063)	(647)	(5,543)	(4,144)
Equity in earnings of unconsolidated real estate entities	14,135	13,101	28,739	24,744
Foreign currency exchange (loss) gain	(1,675)	5,924	(4,023)	(6,813)
Gain on real estate sales	1,219	-	1,219	-
Net income	278,279	261,679	506,552	473,926
Allocation to noncontrolling interests	(1,445)	(1,216)	(2,522)	(2,240)
Net income allocable to Public Storage shareholders	276,834	260,463	504,030	471,686
Allocation of net income to:				
Preferred shareholders	(57,672)	(51,907)	(110,179)	(100,497)
Restricted share units	(810)	(871)	(1,447)	(1,568)
Net income allocable to common shareholders	$ 218,352	$ 207,685	$ 392,404	$ 369,621
Net income allocable to common shareholders per common share:				
Basic	$ 1.27	$ 1.21	$ 2.28	$ 2.15
Diluted	$ 1.26	$ 1.20	$ 2.27	$ 2.14

Basic weighted average common shares outstanding	172,282	171,625	172,096	171,535
Diluted weighted average common shares outstanding	173,181	172,647	172,995	172,580
Cash dividends declared per common share	$ 1.40	$ 1.25	$ 2.80	$ 2.50

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,	
	2014	2013	2014	2013
Net income	$ 278,279	$ 261,679	$ 506,552	$ 473,926
Other comprehensive income (loss):				
Aggregate foreign currency exchange (loss) gain	(6,228)	4,291	(8,091)	(28,330)
Adjust for foreign currency exchange loss (gain) included in net income	1,675	(5,924)	4,023	6,813
Other comprehensive loss	(4,553)	(1,633)	(4,068)	(21,517)
Total comprehensive income	273,726	260,046	502,484	452,409
Allocation to noncontrolling interests	(1,445)	(1,216)	(2,522)	(2,240)
Comprehensive income allocable to Public Storage shareholders	$ 272,281	$ 258,830	$ 499,962	$ 450,169

See accompanying notes.

PUBLIC STORAGE

STATEMENT OF EQUITY

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

(Unaudited)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2013	$ 3,562,500	$ 17,178	$ 5,531,034	$ (318,482)	$ (500)	$ 8,791,730	$ 27,125	$ 8,818,855
Issuance of 22,900,000 preferred shares (Note 8)	572,500	-	(17,394)	-	-	555,106	-	555,106
Issuance of common shares in connection with share-based compensation (562,877 shares) (Note 10)	-	56	30,435	-	-	30,491	-	30,491
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	1,872	-	-	1,872	-	1,872
Net income	-	-	-	506,552	-	506,552	-	506,552
Net income allocated to noncontrolling interests	-	-	-	(2,522)	-	(2,522)	2,522	-
Distributions to equity holders:								
	-	-	-	(110,179)	-	(110,179)	-	(110,179)

Preferred shares (Note 8)								
Noncontrolling interests	-	-	-	-	-	-	(3,400)	(3,400)
Common shares and restricted share units ($2.80 per share)	-	-	-	(483,744)	-	(483,744)	-	(483,744)
Other comprehensive loss (Note 2)	-	-	-	-	(4,068)	(4,068)	-	(4,068)
Balances at June 30, 2014	$ 4,135,000	$ 17,234	$ 5,545,947	$ (408,375)	$ (4,568)	$ 9,285,238	$ 26,247	$ 9,311,485

See accompanying notes.

PUBLIC STORAGE

STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$ 506,552	$ 473,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on real estate sales	(1,219)	-
Depreciation and amortization	215,464	181,938
Distributions received from unconsolidated real estate entities less than equity in earnings	(2,953)	(2,407)
Foreign currency exchange loss	4,023	6,813
Other	4,179	12,299
Total adjustments	219,494	198,643
Net cash provided by operating activities	726,046	672,569
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(32,897)	(32,764)
Construction in process	(48,503)	(58,087)
Acquisition of real estate facilities and intangibles (Note 3)	(32,030)	(21,528)
Proceeds from sale of real estate investments	1,289	-
Disposition of portion of loan receivable from Shurgard Europe	216,217	-
Other	(2,355)	7,615
Net cash provided by (used in) investing activities	101,721	(104,764)
Cash flows from financing activities:		
Repayments on bank credit facility	(50,100)	(133,000)
Repayments on term loan	(378,000)	-
Repayments on notes payable	(18,768)	(223,590)
Issuance of common shares	30,491	16,937
Issuance of preferred shares	555,106	701,687
Acquisition of noncontrolling interests	-	(647)
Distributions paid to Public Storage shareholders	(593,923)	(530,997)
Distributions paid to noncontrolling interests	(3,400)	(3,226)
Net cash used in financing activities	(458,594)	(172,836)
Net increase in cash and cash equivalents	369,173	394,969
Net effect of foreign exchange translation on cash and cash equivalents	(359)	(1,298)
Cash and cash equivalents at the beginning of the period	19,169	17,239

Cash and cash equivalents at the end of the period	$ 387,983	$ 410,910

See accompanying notes.

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PUBLIC STORAGE

STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Supplemental schedule of non-cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	$ (638)	$ 770
Investments in unconsolidated real estate entities	4,376	19,793
Loan receivable from Shurgard Europe	3,994	6,469
Accumulated other comprehensive loss	(8,091)	(28,330)
Real estate acquired in exchange for assumption of note payable	(5,097)	-
Note payable assumed in connection with acquisition of real estate	5,097	-

See accompanying notes.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(Unaudited)

1.Description of the Business

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

At June 30, 2014, we have direct and indirect equity interests in 2,208 self-storage facilities (with approximately 142 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name. We also own one self-storage facility in London, England and we have a 49% interest in Shurgard Europe, which owns 187 self-storage facilities (with approximately 10 million net rentable square feet) located in seven Western European countries, all operating under the “Shurgard” name. We also have direct and indirect equity interests in approximately 31 million net rentable square feet of commercial space located in 11 states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At June 30, 2014, we have an approximate 42% common equity interest in PSB.

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

2.Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) as defined in the Financial Accounting Standards Board Accounting Standards Codification (the “Codification”), including guidance with respect to interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. While they do not include all of the disclosures required by GAAP for complete financial statements, we believe that we have included all adjustments (consisting of normal and recurring adjustments) necessary for a fair presentation. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 due to seasonality and other factors. These interim financial statements should be read together with the audited financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

Consolidation and Equity Method of Accounting

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

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(Unaudited)

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

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

Collectively, at June 30, 2014, the Company and the Subsidiaries own 2,194 self-storage facilities in the U.S., one self-storage facility in London, England and six commercial facilities in the U.S. At June 30, 2014, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 14 self-storage facilities in the U.S. (these limited partnerships, for the periods in which the reference applies, are referred to as the “Other Investments”).

Use of Estimates

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

Income Taxes

We have elected to be treated as a real estate investment trust (“REIT”), as defined in the Internal Revenue Code. As a REIT, we do not incur federal income tax if we distribute 100% of our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) each year, and if we meet certain organizational and operational rules. We believe we will meet these REIT requirements in 2014, and that we have met them for all other periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

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

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of June 30, 2014, we had no tax benefits that were not recognized.

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to develop, construct, renovate and improve properties, including interest and property taxes incurred during the construction period. We expense internal and external transaction costs associated with acquisitions or dispositions of real estate, as well as repairs and maintenance costs, as incurred. We depreciate buildings and improvements on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

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(Unaudited)

We allocate the net acquisition cost of acquired operating self-storage facilities to the underlying land, buildings, identified intangible assets, and remaining noncontrolling interests based upon their respective individual estimated fair values. Any difference between the net acquisition cost and the estimated fair value of the net tangible and intangible assets acquired is recorded as goodwill.

Other Assets

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

Accrued and Other Liabilities

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

Cash Equivalents, Marketable Securities and Other Financial Instruments

Cash equivalents represent highly liquid financial instruments such as money market funds with daily liquidity or short-term commercial paper or treasury securities maturing within three months of acquisition. Cash and cash equivalents which are restricted from general corporate use are included in other assets. Commercial paper not maturing within three months of acquisition, which we intend and have the capacity to hold until maturity, are included in marketable securities and accounted for using the effective interest method. Transfers of financial assets are recorded as sales when the asset is put presumptively beyond our and our creditors' reach, there is no impediment to the transferee's right to pledge or exchange the asset, we have surrendered effective control of the asset, we have no actual or effective right or requirement to repurchase the asset and, in the case of a transfer of a participating interest, there is no impediment to our right to pledge or exchange the participating interest we retain.

Fair Value Accounting

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

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

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

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(Unaudited)

multiples for real estate facilities, projected levels of earnings, costs of construction, functional depreciation, and market interest rates for debt securities with a similar time to maturity and credit quality, which are “Level 3” inputs as the term is defined in Codification Section 820-10-35-52.

Currency and Credit Risk

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

At June 30, 2014, due primarily to our investment in and loan receivable from Shurgard Europe, our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

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

Goodwill totaled $174.6 million at June 30, 2014 and December 31, 2013. The “Shurgard” trade name, which is used by Shurgard Europe pursuant to a fee-based licensing agreement, has a book value of $18.8 million at June 30, 2014 and December 31, 2013. Goodwill and the “Shurgard” trade name have indefinite lives and are not amortized.

Acquired customers in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the customers in place or the land lease expense to each period. At June 30, 2014, these intangibles have a net book value of $31.6 million ($53.4 million at December 31, 2013). Accumulated amortization totaled $50.8 million at June 30, 2014 ($35.1 million at December 31, 2013), and amortization expense of $24.8 million and $4.7 million was recorded in the six months ended June 30, 2014 and 2013, respectively. The estimated future amortization expense for our finite-lived intangible assets at June 30, 2014 is $13.5 million in the remainder of 2014, $9.2 million in 2015 and $8.9 million thereafter. During the six months ended June 30, 2014 and 2013, intangibles were increased $3.1 million and $0.6 million, respectively, in connection with the acquisition of self-storage facilities and leasehold interests.

Evaluation of Asset Impairment

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

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

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If we determine, based upon the relevant events and circumstances and other such qualitative factors, that it is more likely than not that the “Shurgard” trade name is unimpaired, we do not record an impairment charge and no further analysis is performed. Otherwise, we record an impairment charge for any excess of carrying amount over quantitatively assessed fair value.

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

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

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

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

Revenue and Expense Recognition

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

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

Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related balance sheet amounts are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. The Euro was translated at exchange rates of approximately 1.364 U.S. Dollars per Euro at June 30, 2014 (1.377 at December 31, 2013), and average exchange rates of 1.371 and 1.305 for the three months ended June 30, 2014 and 2013, respectively, and average exchange rates of 1.371 and 1.313 for the six months ended June 30, 2014 and 2013, respectively. Cumulative translation adjustments,

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June 30, 2014

(Unaudited)

to the extent not included in cumulative net income, are included in equity as a component of accumulated other comprehensive income (loss).

Comprehensive Income (Loss)

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

Discontinued Operations

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

Recent Accounting Pronouncements and Guidance

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

Net Income per Common Share

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

Basic net income per share is computed using the weighted average common shares outstanding. Diluted net income per share is computed using the weighted average common shares outstanding, adjusted for the impact, if dilutive, of stock options outstanding (Note 10).

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Amounts in thousands)			
Net income allocable to common shareholders	$ 218,352	$ 207,685	$ 392,404	$ 369,621
Weighted average common shares and equivalents outstanding:				
Basic weighted average common shares outstanding	172,282	171,625	172,096	171,535
Net effect of dilutive stock options - based on treasury stock method	899	1,022	899	1,045
Diluted weighted average common shares outstanding	173,181	172,647	172,995	172,580

3.Real Estate Facilities

Activity in real estate facilities is as follows:

	Six Months Ended June 30, 2014 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	$ 12,286,256
Capital expenditures to maintain real estate facilities	32,897
Acquisitions	34,051
Dispositions	(70)
Newly developed facilities opened for operation	40,278

Impact of foreign exchange rate changes		773
Ending balance		12,394,185
Accumulated depreciation:		
Beginning balance		(4,098,814)
Depreciation expense		(188,754)
Impact of foreign exchange rate changes		(135)
Ending balance		(4,287,703)
Construction in process:		
Beginning balance		52,336
Current development		48,503
Newly developed facilities opened for operation		(40,278)
Ending balance		60,561
Total real estate facilities at June 30, 2014	$	8,167,043

During the six months ended June 30, 2014, we acquired six self-storage facilities from third parties (431,000 net rentable square feet), for a total cost of $37.1 million, consisting of $32.0 million in cash and loan assumption of $5.1 million. Approximately $3.1 million of the aggregate cost was allocated to intangible assets. We completed expansion and development activities during the six months ended June 30, 2014, adding 335,000 net rentable square feet of self-storage space, at an aggregate cost of $40.3 million. Construction in

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process at June 30, 2014, consists of projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 2.1 million net rentable square feet of storage space, for an aggregate estimated cost of approximately $242 million. We received approximately $1.3 million in disposition proceeds during the six months ended June 30, 2014.

4.Investments in Unconsolidated Real Estate Entities

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

	Investments in Unconsolidated Real Estate Entities at	
	June 30, 2014	December 31, 2013
PSB	$ 419,726	$ 424,538
Shurgard Europe	427,839	424,095
Other Investments	7,194	7,549
Total	$ 854,759	$ 856,182

	Equity in Earnings of Unconsolidated Real Estate Entities for the			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013

PSB	$ 4,315	$ 4,676	$ 9,652	$ 9,286
Shurgard Europe	9,379	8,024	18,263	14,691
Other Investments	441	401	824	767
Total	$ 14,135	$ 13,101	$ 28,739	$ 24,744

During the six months ended June 30, 2014 and 2013, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling $25.8 million and $22.3 million, respectively. At June 30, 2014, our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately $75 million. This differential is being amortized as a reduction in equity in earnings of the Unconsolidated Real Estate Entities based upon allocations to the underlying net assets. Such amortization was approximately $1.0 million during the six months ended June 30, 2014.

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 42% common equity interest in PSB as of June 30, 2014 and December 31, 2013, 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, 2014 ($83.49 per share of PSB common stock), the shares and units we owned had a market value of approximately $1.2 billion.

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

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	2014	2013
	(Amounts in thousands)	
For the six months ended June 30,		
Total revenue	$ 189,638	$ 176,365
Costs of operations	(64,979)	(58,104)
Depreciation and amortization	(56,736)	(53,590)
General and administrative	(5,850)	(4,769)
Other items	(6,622)	(8,437)
Net income	55,451	51,465
Allocations to preferred shareholders and restricted share unitholders	(30,313)	(29,035)
Net income allocated to common shareholders and LP Unitholders	$ 25,138	$ 22,430

	June 30, 2014	December 31, 2013
	(Amounts in thousands)	
Total assets (primarily real estate)	$ 2,231,476	$ 2,238,559
Debt	250,000	250,000
Other liabilities	69,813	73,919
Equity:		
Preferred stock	995,000	995,000
Common equity and units	916,663	919,640

Investment in Shurgard Europe

For all periods presented, we had a 49% equity investment in Shurgard Europe and our joint venture partner owns the remaining 51% interest. In addition, Shurgard Europe pays a license fee to Public Storage for the use of the “Shurgard” trademark and Public Storage has provided a loan to Shurgard (see Note 5).

Changes in foreign currency exchange rates decreased our investment in Shurgard Europe by approximately $4.4 million and $19.8 million during the six months ended June 30, 2014 and 2013, respectively.

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

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	June 30, 2014	December 31, 2013
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	$ 1,439,089	$ 1,468,155
Total debt to third parties	119,190	154,119
Total shareholder loan	424,343	428,139
Other liabilities	109,453	107,550
Equity	786,103	778,347
Exchange rate of Euro to U.S. Dollar	1.364	1.377

	2014	2013
	(Amounts in thousands)	
For the six months ended June 30,		
Self-storage and ancillary revenues	$ 128,567	$ 120,408
Self-storage and ancillary cost of operations	(51,814)	(50,009)
Depreciation and amortization	(31,586)	(29,661)
General and administrative	(7,431)	(5,392)
Interest expense on third party debt	(2,157)	(2,631)
Trademark license fee payable to Public Storage	(1,287)	(1,205)
Interest expense on shareholder loan	(19,448)	(18,536)
Lease termination benefit (charge) and other (a)	1,691	(2,733)
Net income	$ 16,535	$ 10,241
Average exchange rates Euro to the U.S. Dollar	1.371	1.313

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

As reflected in the table above, Shurgard Europe's net income has been reduced by expenses it pays to its shareholders, including a trademark license fee and interest expense on the shareholder loan. Our equity in earnings of Shurgard Europe for the six months ended June 30, 2014 and 2013 consists of our equity ownership (49%) of Shurgard Europe's net income adjusted for 49% of the trademark license fee and interest paid to Shurgard Europe's shareholders. The following table set forth the calculation of our equity in earnings in Shurgard Europe:

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	2014	2013
	(Amounts in thousands)	
For the six months ended June 30,		
Calculation of equity in earnings of Shurgard Europe:		
Our 49% share of Shurgard Europe's net income	$ 8,102	$ 5,018
Adjustments:		
49% of trademark license fees	631	590
49% of interest on shareholder loan	9,530	9,083
Total equity in earnings of Shurgard Europe	$ 18,263	$ 14,691

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

Other Investments

At June 30, 2014, the "Other Investments" include an average common equity ownership of approximately 26% in various limited partnerships that collectively own 14 self-storage facilities.

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

	2014	2013
	(Amounts in thousands)	
For the six months ended June 30,		

Total revenue	$ 7,083	$ 6,882
Cost of operations and other expenses	(2,562)	(2,449)
Depreciation and amortization	(910)	(978)
Net income	$ 3,611	$ 3,455

	June 30, 2014	December 31, 2013
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	$ 25,669	$ 26,531
Total accrued and other liabilities	1,539	1,412
Total Partners' equity	24,130	25,119

5.Loan Receivable from Shurgard Europe

At December 31, 2013, we owned 100% of the shareholder loan due from Shurgard Europe, which had a balance of €311.0 million ($428.1million). 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. As of June 30, 2014, we owned a 49% interest in the loan, which had a balance of €311.0 million ($424.3 million).

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The loan bears interest at a fixed rate of 9.0% per annum and has no required principal payments until maturity in April 2019, but can be prepaid in part or in full at any time without penalty.

49% of the interest paid to us by Shurgard Europe is included in equity in earnings of Shurgard Europe, and the remaining amount paid to us is included in "interest and other income." 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, as compared to $4.7 million and $9.4 million for the three and six months ended June 30, 2013, respectively. The reduction in amounts classified as interest and other income during the three and six months ended June 30, 2014, as compared to the same periods in 2013, is due to the sale, on January 28, 2014 of 51% of the shareholder loan to our joint venture partner, who now collects 51% of the loan interest following the sale.

Based upon our continued expectation of repayment of the loan in the foreseeable future, we reflect changes in the U.S. Dollar equivalent of the amount due us, as a result of changes in foreign exchange rates as "foreign currency exchange gain (loss)" on our income statement. Shurgard Europe repaid the entire shareholder loan in July 2014 with financing proceeds received from third parties.

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

6.Credit Facility, Term Loan and Notes Payable

We have a $300 million revolving line of credit (the "Credit Facility") that expires on March 21, 2017. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.900% to LIBOR plus 1.500% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.900% at June 30, 2014). In addition, we are required to pay a quarterly facility fee ranging from 0.125% per annum to 0.300% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.125% per annum at June 30, 2014). At June 30, 2014 and August 4, 2014, we had no outstanding borrowings under this Credit Facility ($50.1 million at December 31, 2013). We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling $14.1 million at June 30, 2014 and $15.1 million at December 31, 2013. The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at June 30, 2014.

On December 2, 2013, we entered into a one year $700 million unsecured term loan (the "Term Loan") with Wells Fargo Bank, the lead arranger for our Credit Facility. The Term Loan matures on December 2, 2014 and can be repaid in full or part at any time prior to its maturity without penalty. The interest rate and covenants on the Term Loan are the same as for the Credit Facility. At June 30, 2014, outstanding borrowings under this Term Loan totaled $322.0 million ($700.0 million at December 31, 2013), at an interest rate of 1.052%. As of August 4, 2014, outstanding balances under this Term Loan totaled $122.0 million. In connection with the Term Loan, we incurred origination costs of $1.9 million which are amortized over the one year period of the Term Loan using the effective interest method. As of June 30, 2014, we had $0.4 million ($1.8 million as of December 31, 2013) of unamortized loan costs.

The carrying amounts of our notes payable at June 30, 2014 and December 31, 2013, respectively, totaled $75.0 million and $89.0 million, with unamortized premium totaling $0.6 million and $0.5 million. These notes were assumed in connection with business combinations and recorded at fair value with any premium or discount over the stated note balance amortized using the effective interest method. At June 30,

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2014, the notes are secured by 41 real estate facilities with a net book value of approximately $188 million, have stated note rates between 2.9% and 7.1%, and mature between September 2014 and September 2028.

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

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

2014 (remainder)	$ 7,342
2015	30,955
2016	16,100
2017	5,970
2018	11,076
Thereafter	3,544
	$ 74,987
Weighted average effective rate	4.6%

Cash paid for interest totaled $6.2 million for each of the six month periods ended June 30, 2014 and 2013. Interest capitalized as real estate totaled $0.4 million and $1.5 million for the six months ended June 30, 2014 and 2013, respectively.

7.Noncontrolling Interests

At June 30, 2014, third parties own i) interests in Subsidiaries that own an aggregate of 14 self-storage facilities, and ii) 231,978 partnership units in a Subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder. These interests are referred to collectively hereinafter as the “Noncontrolling Interests.” At June 30, 2014, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the Subsidiary.

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

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8.Shareholders' Equity

Preferred Shares

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

			At June 30, 2014		At December 31, 2013	
Series	Earliest Redemption Date	Dividend Rate	Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
			(Dollar amounts in thousands)			
Series O	4/15/2015	6.875%	5,800	$ 145,000	5,800	$ 145,000
Series P	10/7/2015	6.500%	5,000	125,000	5,000	125,000
Series Q	4/14/2016	6.500%	15,000	375,000	15,000	375,000
Series R	7/26/2016	6.350%	19,500	487,500	19,500	487,500
Series S	1/12/2017	5.900%	18,400	460,000	18,400	460,000
Series T	3/13/2017	5.750%	18,500	462,500	18,500	462,500
Series U	6/15/2017	5.625%	11,500	287,500	11,500	287,500
Series V	9/20/2017	5.375%	19,800	495,000	19,800	495,000
Series W	1/16/2018	5.200%	20,000	500,000	20,000	500,000
Series X	3/13/2018	5.200%	9,000	225,000	9,000	225,000
Series Y	3/17/2019	6.375%	11,400	285,000	-	-
Series Z	6/4/2019	6.000%	11,500	287,500	-	-
Total Preferred Shares			165,400	$ 4,135,000	142,500	$ 3,562,500

The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except under certain conditions and as noted below, holders of the Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our Board of Trustees until the arrearage has been cured. At June 30, 2014, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the Preferred Shares are not redeemable prior to the dates indicated on the table above. On or after the respective dates, each of the series of

Preferred Shares is redeemable at our option, in whole or in part, at $25.00 per depositary share, 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, representing 1/1,000 of a share of our Series Y and Series Z Preferred Shares, at an issuance price of $25.00 per

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

Dividends

Common share dividends including amounts paid to our restricted share unitholders totaled $242.0 million ($1.40 per share) and $215.4 million ($1.25 per share), for the three months ended June 30, 2014 and 2013, respectively, and $483.7 million ($2.80 per share) and $430.5 million ($2.50 per share), for the six months ended June 30, 2014 and 2013, respectively. Preferred share dividends totaled $57.7 million and $51.9 million for the three months ended June 30, 2014 and 2013, respectively, and $110.2 million and $100.5 million, for the six months ended June 30, 2014 and 2013, respectively.

9.Related Party Transactions

The Hughes Family owns approximately 15.8% of our common shares outstanding at June 30, 2014.

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 the six months ended June 30, 2014 and 2013, we received $0.2 million and $0.3 million, respectively, in reinsurance premiums attributed to these facilities. There is no assurance that these premiums will continue, as our rights to reinsure these risks may be qualified.

10.Share-Based Compensation

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

Stock options and RSUs are considered "granted" and "outstanding" as the terms are used herein, when i) the Company and the recipient reach a mutual understanding of the key terms of the award, ii) the award has been authorized, iii) the recipient is affected by changes in the market price of our stock, and iv) it is probable that any performance and service conditions will be met.

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

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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, 2014, we recorded $0.7 million and $1.3 million, respectively, in compensation expense related to stock options, as compared to $0.7 million and $1.4 million, for the same periods in 2013.

During the six months ended June 30, 2014, 235,000 stock options were granted, 472,725 options were exercised and 3,250 options were forfeited. A total of 1,933,236 stock options were outstanding at June 30, 2014 (2,174,211 at December 31, 2013).

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, 2014, 187,107 RSUs were granted, 38,922 RSUs were forfeited and 152,482 RSUs vested. This vesting resulted in the issuance of 90,152 common shares. In addition, tax deposits totaling $10.4 million were made on behalf of employees in exchange for 62,330 common shares withheld upon vesting.

RSUs outstanding at June 30, 2014 and December 31, 2013 were 632,032 and 636,329, respectively. A total of $6.4 million and $12.0 million in RSU expense was recorded for the three and six months ended June 30, 2014, respectively, which include approximately $0.1 million and $1.1 million, respectively, in employer taxes incurred upon vesting, as compared to $6.3 million and $11.5 million for the same periods in 2013, respectively, which include approximately $0.1 million and $0.9 million, respectively, in employer taxes incurred upon vesting.

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

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11.Segment Information

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

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

Domestic Self-Storage Segment

The Domestic Self-Storage Segment includes the operations of the 2,195 self-storage facilities owned by the Company and the Subsidiaries, as well as our equity share of the Other Investments. For all periods presented, substantially all of our real estate facilities, goodwill and other intangible assets, other assets, and accrued and other liabilities are associated with the Domestic Self-Storage Segment.

European Self-Storage Segment

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

Commercial Segment

The Commercial segment comprises our investment in PSB, a publicly-traded REIT with a separate management team that makes its financing, capital allocation and other significant decisions. The Commercial segment also includes our direct interest in certain commercial facilities, substantially all of which are managed by PSB. The Commercial segment presentation includes our equity earnings and interest income from PSB, as well as the revenues and expenses of our commercial facilities. At June 30, 2014, the assets of the Commercial segment are comprised principally of our investment in PSB (Note 4).

Presentation of Segment Information

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

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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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Three months ended June 30, 2013

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

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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, 2014

(Unaudited)

Six months ended June 30, 2013

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

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(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, 2014, there were approximately 825,000 certificates held by our self-storage customers, representing aggregate coverage of approximately $2.0 billion.

13.Subsequent Events

On July 1, 2014, we acquired 25 properties, including 19 in Florida, three in Maryland and one each in North Carolina, New Jersey and Virginia containing in aggregate 1.8 million in net rentable square feet of self-storage space for approximately $240.0 million in cash. As of August 4, 2014, we were under contract to purchase four additional self-storage facilities with 0.4 million net rentable square feet of self-storage space for approximately $40 million.

In July 2014, Shurgard Europe fully repaid its €311.0 million shareholder loan with financing proceeds it received from third parties. We received a total of $205.0 million for our 49% share of the loan, based upon the foreign exchange rates at the date of repayment. During July 2014, we repaid $200.0 million on our Term Loan.

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

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

Forward Looking Statements

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

These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause our actual results and performance to be materially different from those expressed or implied in the forward-looking statements. Factors and risks that may impact our future results and performance include, but are not limited to, those described in Part I, Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 25, 2014 and in our other filings with the SEC and the following:

- general risks associated with the ownership and operation of real estate, including changes in demand, risks related to development of self-storage facilities, potential liability for environmental contamination, natural disasters and adverse changes in laws and regulations governing property tax, real estate and zoning;
- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our 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 properties;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations, refinancing risk, and local and global economic uncertainty that could adversely affect our earnings and cash flows;
- risks related to our participation in joint ventures;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing environmental, taxes and tenant insurance matters and real estate investment trusts ("REITs"), and risks related to the impact of new laws and regulations;
- 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 REIT's, which could impact our status as a REIT;
- disruptions or shutdowns of our automated processes, systems and the Internet or breaches of our data security;

- 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, 2014 financial statements, primarily Note 2, summarize our significant accounting policies.

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

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

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

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

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

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.

Recording the fair value of acquired real estate facilities: In accounting for facilities acquired from third parties, we estimate the fair values of the land, buildings and intangible assets 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 in their current state, 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 93% of our revenues for the six months ended June 30, 2014, and also generated most of our net income and cash flow from operations. A significant portion of management time is devoted to maximizing cash flows from our existing self-storage facilities, 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 2013, we took advantage of a significant increase in properties being marketed for sale and acquired 121 self-storage facilities for approximately $1.2 billion, substantially more than we had acquired in total in 2010, 2011 and 2012 (an aggregate of 77 facilities for $546 million). We believe that the increase in properties marketed for sale was primarily driven by easier access to capital in the current low interest rate environment and improved property valuations. During the six months ended June 30, 2014, we have acquired six self-storage facilities for approximately $37.1 million. On July 1, 2014, we acquired 25 self-storage facilities for approximately $240.0 million, and as of August 4, 2014, we have four additional self-storage facilities under contract for an aggregate purchase price of approximately $40 million. We expect to continue to seek to acquire additional self-storage facilities from third parties. There is significant competition to acquire existing facilities and there can be no assurance that we will be able to acquire additional facilities at prices we will find attractive.

As of June 30, 2014, we had development and expansion projects which will add approximately 2.1 million net rentable square feet of storage space and will cost approximately $242 million. A total of $61 million in costs were incurred through June 30, 2014 with respect to these projects, with approximately $70 million of the remaining costs expected to be incurred in the last six months of 2014, and the remainder in 2015. 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 also have equity investments in Shurgard Europe and PS Business Parks, Inc. ("PSB"). During the year ended December 31, 2013, we increased our investment in PSB by acquiring 1,356,748 shares of PSB common stock in open-market transactions and directly from PSB, for an aggregate cost of $105.0 million. We may invest further in these entities in the future.

As of June 30, 2014, our capital resources totaled approximately $763 million, consisting of (i) cash and cash equivalents totaling $388 million, (ii) $205 million received from Shurgard Europe in July 2014 in repayment of its shareholder loan to us, and (iii) $170 million of retained operating cash flow for the remainder of 2014. We also have approximately $286 million of available borrowing capacity on our line of credit. Retained operating cash flow represents our expected cash flow provided by operating activities, after deducting estimated distributions to our common and preferred shareholders, and estimated capital expenditure requirements for the six months ending December 31, 2014.

At June 30, 2014, we had estimated remaining 2014 capital commitments totaling approximately $679 million, consisting of $322 million to repay our term loan, $7 million in maturities on notes payable, $280 million in property acquisitions, as well as approximately $70 million of remaining spend on our development pipeline. In addition, we expect that our capital commitments will continue to grow during the remainder of 2014 as we continue to seek additional development and acquisition opportunities.

See Liquidity and Capital Resources for further information regarding our remaining 2014 capital requirements and anticipated sources of capital to fund such requirements.

Results of Operations

Operating Results for the Three Months Ended June 30, 2014 and 2013

For the three months ended June 30, 2014, net income allocable to our common shareholders was $218.4 million or $1.26 per diluted common share, compared to $207.7 million or $1.20 per diluted common share for the same period in 2013, representing an increase of $10.7 million or $0.06 per diluted common share. This increase is due primarily to a $38.9 million increase in self-storage net operating income, offset partially by a $15.5 million increase in depreciation and amortization associated with the 127 self-storage facilities acquired since January 2013.

The increase in our self-storage net operating income was the result of a $21.2 million increase for our Same Store Facilities combined with a $17.7 million increase for our non-Same Store Facilities. Revenues for the Same Store Facilities increased 5.3% or $22.6 million in the quarter ended June 30, 2014 as compared to the same period in 2013, due to higher realized annual rent per occupied square foot and higher average occupancy. Cost of operations for the Same Store Facilities increased by 1.2% or $1.5 million in the quarter ended June 30, 2014 as compared to the same period in 2013, due primarily to increases in property taxes offset partially by lower on-site property manager payroll. The increase in net operating income for the non-Same Store Facilities is due primarily to the impact of the acquisition of 127 self-storage facilities since January 2013.

Operating Results for the Six Months Ended June 30, 2014 and 2013

For the six months ended June 30, 2014, net income allocable to our common shareholders was $392.4 million or $2.27 per diluted common share, compared to $369.6 million or $2.14 per diluted common share for the same period in 2013, representing an increase of $22.8 million or $0.13 per diluted common share. This increase is due primarily to a $69.8 million increase in self-storage net operating income, offset partially by a $33.5 million increase in depreciation and amortization associated with the 127 self-storage facilities acquired since January 2013.

The increase in our self-storage net operating income was the result of a $37.2 million increase for our Same Store Facilities combined with a $32.6 million increase for our non-Same Store Facilities. Revenues for the Same Store Facilities increased 5.2% or $43.9 million in the six months ended June 30, 2014 as compared to the same period in 2013, due to higher realized annual rent per occupied square foot and higher average occupancy. Cost of operations for the Same Store Facilities increased by 2.6% or $6.8 million in the six months ended June 30, 2014 as compared to the same period in 2013, due primarily to increases in property taxes, snow removal and utilities expense, offset partially by lower advertising and selling costs. The increase in net operating income for the non-Same Store Facilities is due primarily to the impact of the acquisition of 127 self-storage facilities since January 2013.

Funds from Operations and Core Funds from Operations

Funds from Operations ("FFO") and FFO per share are non-GAAP (generally accepted accounting principles) 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 ratable 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, 2014, FFO was $1.99 per diluted common share, as compared to $1.83 for the same period in 2013, representing an increase of 8.7%, or $0.16 per diluted common share.

For the six months ended June 30, 2014, FFO was $3.73 per diluted common share, as compared to $3.40 for the same period in 2013, representing an increase of 9.7%, or $0.33 per diluted common share.

The following tables reconcile diluted earnings per share to FFO per share, and sets for the computation of FFO per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Amounts in thousands, except per share data)			
Reconciliation of Diluted Earnings per Share to FFO per Share:				
Diluted Earnings per Share	$ 1.26	$ 1.20	$ 2.27	$ 2.14
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	0.74	0.63	1.47	1.26
Gains on sale of real estate investments, including our equity share from investments, and other	(0.01)	-	(0.01)	-
FFO per share	$ 1.99	$ 1.83	$ 3.73	$ 3.40
Computation of FFO per Share:				
Net income allocable to common shareholders	$ 218,352	$ 207,685	$ 392,404	$ 369,621
Eliminate items excluded from FFO:				
Depreciation and amortization	106,443	90,937	215,464	181,938
Depreciation from unconsolidated real estate investments	21,062	18,158	40,733	37,061
Depreciation allocated to noncontrolling interests and restricted share unitholders	(811)	(979)	(1,939)	(1,994)

Gains on sale of real estate investments, including our equity share from investments, and other	(1,205)	-	(1,292)	-
FFO allocable to common shares	$ 343,841	$ 315,801	$ 645,370	$ 586,626
Diluted weighted Average common shares	173,181	172,647	172,995	172,580
FFO per share	$ 1.99	$ 1.83	$ 3.73	$ 3.40

We also present "Core FFO per share," a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange losses of $1.7 million and $4.0 million for the three and six months ended June 30, 2014, respectively, (a gain of $5.9 million and a loss of $6.8 million for the same periods in 2013), and (ii) other items, comprised primarily of a $7.8 million accrual related to a legal settlement included in ancillary cost of operations for the six months ended June 30, 2014, a $4.1 million reduction in ancillary cost of operations associated with recognition of a deferred tax asset in the three and six months ended June 30, 2014, and our $1.4 million equity share of charges incurred by Shurgard Europe in closing a facility during the six months ended June 30, 2013. We believe Core FFO 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,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
FFO per share	$ 1.99	$ 1.83	8.7%	$ 3.73	$ 3.40	9.7%
Eliminate the per share impact of items excluded from Core FFO:						
Foreign currency exchange loss (gain)	0.01	(0.03)		0.02	0.04	
Other items	(0.03)	-		0.03	0.01	
Core FFO per share	$ 1.97	$ 1.80	9.4%	$ 3.78	$ 3.45	9.6%

Real Estate Operations

Self-Storage Operations: Our self-storage operations represent 93% of our revenues for the six months ended June 30, 2014. 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, 2012, 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,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
	(Dollar amounts in thousands)					
Revenues:						
Same Store Facilities	$ 452,797	$ 430,179	5.3%	$ 893,419	$ 849,488	5.2%
Non Same Store Facilities	48,006	21,397	124.4%	92,971	41,753	122.7%
Total rental income	500,803	451,576	10.9%	986,390	891,241	10.7%
Cost of operations:						
Same Store Facilities	126,785	125,335	1.2%	266,314	259,540	2.6%
Non Same Store Facilities	15,642	6,802	130.0%	32,181	13,590	136.8%
Total cost of operations	142,427	132,137	7.8%	298,495	273,130	9.3%
Net operating income (a):						
Same Store Facilities	326,012	304,844	6.9%	627,105	589,948	6.3%
Non Same Store Facilities	32,364	14,595	121.7%	60,790	28,163	115.9%
Total net operating income	358,376	319,439	12.2%	687,895	618,111	11.3%
Total depreciation and amortization expense:						
Same Store Facilities	(77,929)	(79,331)	(1.8)%	(157,087)	(159,073)	(1.2)%
Non Same Store Facilities	(27,781)	(10,918)	154.5%	(56,956)	(21,478)	165.2%
Total depreciation and amortization expense	(105,710)	(90,249)	17.1%	(214,043)	(180,551)	18.5%
Total net income	$ 252,666	$ 229,190	10.2%	$ 473,852	$ 437,560	8.3%
Number of facilities at period end:						
Same Store Facilities				1,983	1,983	-
Non Same Store Facilities				212	85	149.4%
Net rentable square footage at period end (in thousands):						
Same Store Facilities				125,492	125,492	-
Non Same Store Facilities				15,561	6,667	133.4%

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

Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated on a stabilized basis since January 1, 2012 and therefore provide meaningful comparisons for 2013 and 2014. The following table summarizes the historical operating results of these 1,983 facilities (125.5 million net rentable square feet) that represent approximately 89% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at June 30, 2014.

Selected Operating Data for the Same Store Facilities (1,983 facilities)	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
	(Dollar amounts in thousands, except weighted average amounts)					
Revenues:						
Rental income	$ 431,362	$ 409,340	5.4%	$ 849,851	$ 807,645	5.2%
Late charges and administrative fees	21,435	20,839	2.9%	43,568	41,843	4.1%
Total revenues (a)	452,797	430,179	5.3%	893,419	849,488	5.2%
Cost of operations:						
Property taxes	46,986	44,972	4.5%	94,588	90,605	4.4%
On-site property manager payroll	25,081	26,130	(4.0)%	51,904	52,502	(1.1)%
Supervisory payroll	8,734	8,868	(1.5)%	17,587	18,168	(3.2)%
Repairs and maintenance	9,441	9,281	1.7%	24,189	20,307	19.1%
Utilities	9,038	8,785	2.9%	19,591	18,266	7.3%
Advertising and selling expense	6,047	6,580	(8.1)%	12,530	14,239	(12.0)%
Other direct property costs	13,152	12,703	3.5%	25,823	25,580	0.9%
Allocated overhead	8,306	8,016	3.6%	20,102	19,873	1.2%
Total cost of operations (a)	126,785	125,335	1.2%	266,314	259,540	2.6%
Net operating income (b)	326,012	304,844	6.9%	627,105	589,948	6.3%
Depreciation and amortization expense	(77,929)	(79,331)	(1.8)%	(157,087)	(159,073)	(1.2)%
Net income	$ 248,083	$ 225,513	10.0%	$ 470,018	$ 430,875	9.1%
Gross margin (before depreciation and amortization)	72.0%	70.9%	1.6%	70.2%	69.4%	1.2%
Weighted average for the period:						
Square foot occupancy	94.7%	94.0%	0.7%	93.7%	92.9%	0.9%
Realized annual rental income per:						
Occupied square foot (c)	$ 14.52	$ 13.88	4.6%	$ 14.45	$ 13.86	4.3%

Available square foot ("REVPAF") (c)	$ 13.75	$ 13.05	5.4%	$ 13.54	$ 12.87	5.2%
At June 30:						
Square foot occupancy				95.1%	94.9%	0.2%
Annual contract rent per occupied square foot (d)				$ 15.29	$ 14.63	4.5%

(a)Revenues and cost of operations do not include ancillary revenues and expenses generated at the facilities with respect to tenant reinsurance and retail sales.

(b)See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our operating income in our income statements.

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

(d)Contract rent represents the applicable contractual monthly rent charged to our customers, excluding the impact of promotional discounts, late charges and administrative fees.

Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 5.3% in the three months ended June 30, 2014 as compared to the same period in 2013 due to a 0.7% increase in average occupancy and a 4.6% increase in realized rent per occupied square foot. Revenues generated by our Same Store Facilities increased by 5.2% in the six months ended June 30, 2014 as compared to the same period in 2013 due to a 0.9% increase in average occupancy and a 4.3% increase in realized rent per occupied square foot. The increase in realized rent per occupied square foot was due primarily to annual rent increases given to customers that have been renting with us longer than one year, and to a lesser extent, increased move-in rates.

Same Store average occupancy increased from 94.0% in the three months ended June 30, 2013 to 94.7% in the three months ended June 30, 2014, representing an increase of 0.7%. Same Store average occupancy increased from 92.9% in the six months ended June 30, 2013 to 93.7% in the six months ended June 30, 2014, representing an increase of 0.9%. We expect the year-over-year occupancy spread to continue to narrow during the remainder of 2014, due to more difficult comparisons.

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

Increasing rental rates to existing customers, 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 to continue to pass similar rent increases to long-term customers in the remainder of 2014, as we did in in the same periods of 2013.

We believe that high occupancies help maximize our rental revenue. We seek to maintain an average occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to attract new customers as well as adjusting our marketing efforts on both television and the Internet in order to generate sufficient move-in volume to replace customers 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 customers are typically higher in the summer months than in the winter months.

During the three months ended June 30, 2014 and 2013, the average annualized contractual rates per occupied square foot for customers that moved in were $13.70 and $12.82, respectively, and for customers that vacated were $13.94

and $13.48, respectively. During the six months ended June 30, 2014 and 2013, the average annualized contractual rates per occupied square foot for customers that moved in were $13.28 and $12.69, respectively, and for customers that vacated were $13.90 and $13.43, respectively. There were no changes in the amounts of promotional discounts in the three and six months ended June 30, 2014 as compared to the same periods in 2013.

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 2014. 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 customers moving in or moving out, the length of stay of the customers moving in or moving out, changes in our pricing strategies, and the degree and timing of rate increases previously passed to existing customers.

Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 1.2% and 2.6% in the three and six months ended June 30, 2014 as compared to the same periods in 2013. The increase in the three months ended June 30, 2014 was due primarily to increased property taxes, offset partially by reduced on-site property manager payroll. The increase in the six months ended June 30, 2014 was due primarily to increases in property taxes, snow removal, and utilities expense, offset partially by lower advertising and selling costs.

Property tax expense increased 4.5% and 4.4% in the three and six months ended June 30, 2014 as compared to the same periods in 2013, due primarily to higher assessed values and tax rates. We expect property tax growth of approximately 4.5% in the remainder of 2014.

On-site property manager payroll expense decreased 4.0% and 1.1% in the three and six months ended June 30, 2014 as compared to the same periods in in 2013. This decrease was due primarily to efficiencies which resulted in fewer hours worked, combined with reduced workers' compensation-related expenses. We expect flat levels of on-site property manager payroll expense in the remainder of 2014.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, decreased 1.5% and 3.2% in the three and six months ended June 30, 2014 as compared to the same periods in in 2013 due primarily to reduced headcount. We expect inflationary increases in supervisory payroll expense for the remainder of 2014 as compared to the same period in 2013.

Repairs and maintenance expense increased 1.7% and 19.1% in the three and six months ended June 30, 2014 as compared to the same periods in 2013. Repair and maintenance costs include snow removal expense totaling $0.2 million and $0.4 million in the three months ended June 30, 2014 and 2013, respectively, and $7.3 million and $3.7 million in the six months ended June 30, 2014 and 2013, respectively. Excluding snow removal costs, repairs and maintenance increased 3.6% and 2.0% in the three and six months ended June 30, 2014 as compared to the same periods in in 2013.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs, inflation in material and labor costs, and random events. We expect inflationary increases in repairs and maintenance expense in the remainder of 2014 as compared to the same period in 2013, excluding snow removal expense.

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 increased 2.9% and 7.3% in the three and six months ended June 30, 2014 as compared to the same periods in 2013. The increase in the six month period was in large part due to the severe winter weather in many of the markets in which we operate. It is difficult to estimate future utility cost levels, because weather, temperature, and energy prices are volatile and not predictable.

Advertising and selling expense is comprised principally of Internet advertising, media advertising and the operating costs of our telephone reservation center. Advertising and selling expense varies based upon demand, occupancy levels, and other factors; media and Internet advertising, in particular, can increase or decrease significantly in the short run in response to these factors. These costs declined 8.1% and 12.0% in the three and six months ended June 30, 2014 as compared to the same periods in 2013 due primarily to decreases in media advertising and telephone reservation center costs as a result of high occupancies. Based upon current trends in move-ins, move-outs, and occupancies, we expect advertising and selling expense to be approximately flat in the third quarter of 2014 as compared to the same period in 2013, however, we expect an increase of approximately $2 million in our fourth quarter compared to the same period in 2013.

Other direct property costs include administrative expenses incurred at the self-storage facilities, such as property insurance, business license costs, bank charges related to processing the properties' cash receipts, credit card fees, and the cost of operating each property's rental office including supplies and telephone data communication lines. These costs increased 3.5% and 0.9% in the three and six months ended June 30, 2014 as compared to the same periods in 2013, due primarily to higher credit card fees, offset partially by lower property insurance costs. We expect inflationary increases in other direct property costs in the remainder of 2014 as compared to the same period in 2013.

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 increased 3.6% and 1.2% in the three and six months ended June 30, 2014, respectively, as compared to the same periods in 2013. We expect inflationary growth in allocated overhead in the remainder of 2014 as compared to the same period in 2013.

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:					
2014	$ 440,622	$ 452,797			
2013	$ 419,309	$ 430,179	$ 451,525	$ 443,055	$ 1,744,068
Total cost of operations:					
2014	$ 139,529	$ 126,785			
2013	$ 134,205	$ 125,335	$ 127,753	$ 102,116	$ 489,409
Property taxes:					
2014	$ 47,602	$ 46,986			
2013	$ 45,633	$ 44,972	$ 44,594	$ 27,781	$ 162,980
Repairs and maintenance:					
2014	$ 14,748	$ 9,441			
2013	$ 11,026	$ 9,281	$ 9,870	$ 9,986	$ 40,163
Advertising and selling expense:					
2014	$ 6,483	$ 6,047			
2013	$ 7,659	$ 6,580	$ 8,600	$ 4,957	$ 27,796
REVPAF:					
2014	$ 13.34	$ 13.75			
2013	$ 12.70	$ 13.05	$ 13.67	$ 13.44	$ 13.21
Weighted average realized annual rent per occupied square foot:					
2014	$ 14.41	$ 14.52			
2013	$ 13.81	$ 13.88	$ 14.49	$ 14.45	$ 14.16
Weighted average occupancy levels for the period:					
2014	92.6%	94.7%			
2013	91.9%	94.0%	94.4%	93.0%	93.3%

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,		
	2014	2013	Change	2014	2013	Change
	(Amounts in thousands, except for weighted average data)					
Revenues:						
Los Angeles (197 facilities)	$ 66,532	$ 63,514	4.8%	$ 131,553	$ 125,676	4.7%
San Francisco (128 facilities)	38,389	36,006	6.6%	75,604	71,020	6.5%
New York (79 facilities)	29,063	28,165	3.2%	57,526	55,863	3.0%
Chicago (129 facilities)	28,033	26,849	4.4%	55,273	52,816	4.7%
Washington DC (75 facilities)	21,856	21,295	2.6%	43,103	42,064	2.5%
Seattle-Tacoma (85 facilities)	21,569	20,268	6.4%	42,339	39,817	6.3%
Miami (61 facilities)	19,018	17,845	6.6%	37,688	35,380	6.5%
Dallas-Ft. Worth (98 facilities)	17,759	16,659	6.6%	35,114	32,880	6.8%
Houston (80 facilities)	16,471	15,236	8.1%	32,533	30,136	8.0%
Atlanta (89 facilities)	15,482	14,602	6.0%	30,718	28,957	6.1%
Philadelphia (55 facilities)	11,635	11,052	5.3%	22,962	21,828	5.2%
Denver (47 facilities)	10,564	9,834	7.4%	20,594	19,174	7.4%
Minneapolis-St Paul (41 facilities)	8,993	8,441	6.5%	17,477	16,341	7.0%
Portland (43 facilities)	8,272	7,721	7.1%	16,182	15,240	6.2%
Orlando-Daytona (45 facilities)	7,477	7,184	4.1%	14,861	14,292	4.0%
All other markets (731 facilities)	131,684	125,508	4.9%	259,892	248,004	4.8%
Total revenues	$ 452,797	$ 430,179	5.3%	$ 893,419	$ 849,488	5.2%
Net operating income:						
Los Angeles	$ 53,398	$ 50,217	6.3%	$ 104,212	$ 98,087	6.2%
San Francisco	30,203	27,835	8.5%	58,795	54,377	8.1%
New York	20,513	19,850	3.3%	38,716	37,608	2.9%
Chicago	16,115	15,118	6.6%	28,501	27,985	1.8%
Washington DC	16,654	16,198	2.8%	32,034	31,373	2.1%
Seattle-Tacoma	16,595	15,383	7.9%	32,158	29,738	8.1%
Miami	13,192	12,303	7.2%	25,623	23,945	7.0%
Dallas-Ft. Worth	11,869	10,831	9.6%	23,284	21,204	9.8%
Houston	11,381	10,183	11.8%	22,307	20,032	11.4%
Atlanta	10,958	10,065	8.9%	21,486	19,751	8.8%
Philadelphia	8,371	7,523	11.3%	15,227	14,420	5.6%
Denver	7,730	7,016	10.2%	14,711	13,434	9.5%
Minneapolis-St. Paul	6,078	5,518	10.1%	11,137	10,144	9.8%
Portland	6,138	5,717	7.4%	11,890	11,061	7.5%
Orlando-Daytona	5,004	4,608	8.6%	9,854	9,127	8.0%

All other markets	91,813	86,479	6.2%	177,170	167,662	5.7%
Total net operating income	$ 326,012	$ 304,844	6.9%	$ 627,105	$ 589,948	6.3%

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Same Store Facilities Operating Trends by Market (Continued)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
Weighted average square foot occupancy:						
Los Angeles	94.7%	94.0%	0.7%	94.0%	93.4%	0.6%
San Francisco	95.6%	94.9%	0.7%	94.9%	94.2%	0.7%
New York	94.7%	95.3%	(0.6)%	93.7%	94.5%	(0.8)%
Chicago	94.5%	95.0%	(0.5)%	93.1%	93.4%	(0.3)%
Washington DC	94.0%	94.4%	(0.4)%	92.5%	92.9%	(0.4)%
Seattle-Tacoma	94.8%	94.0%	0.9%	93.6%	92.6%	1.1%
Miami	94.9%	93.7%	1.3%	94.6%	93.3%	1.4%
Dallas-Ft. Worth	95.0%	93.9%	1.2%	94.2%	92.8%	1.5%
Houston	94.5%	93.7%	0.9%	93.9%	93.0%	1.0%
Atlanta	93.9%	92.2%	1.8%	93.0%	91.1%	2.1%
Philadelphia	95.0%	94.0%	1.1%	94.0%	92.5%	1.6%
Denver	96.2%	96.2%	0.0%	94.6%	94.8%	(0.2)%
Minneapolis-St. Paul	95.9%	95.7%	0.2%	93.6%	93.0%	0.6%
Portland	96.7%	94.9%	1.9%	95.3%	93.8%	1.6%
Orlando-Daytona	93.4%	93.3%	0.1%	93.2%	92.8%	0.4%
All other markets	94.6%	93.6%	1.1%	93.4%	92.5%	1.0%
Total weighted average occupancy	94.7%	94.0%	0.7%	93.7%	92.9%	0.9%
Realized annual rent per occupied square foot:						
Los Angeles	$ 19.98	$ 19.19	4.1%	$ 19.89	$ 19.07	4.3%
San Francisco	20.97	19.79	6.0%	20.81	19.66	5.8%
New York	22.24	21.35	4.2%	22.22	21.34	4.1%
Chicago	13.98	13.28	5.3%	13.97	13.29	5.1%
Washington DC	20.30	19.81	2.5%	20.31	19.86	2.3%
Seattle-Tacoma	15.61	14.76	5.8%	15.50	14.73	5.2%
Miami	17.59	16.72	5.2%	17.47	16.62	5.1%
Dallas-Ft. Worth	11.37	10.78	5.5%	11.31	10.74	5.3%
Houston	11.96	11.14	7.4%	11.85	11.09	6.9%
Atlanta	10.60	10.15	4.4%	10.57	10.16	4.0%
Philadelphia	13.67	13.09	4.4%	13.61	13.11	3.8%
Denver	13.87	12.89	7.6%	13.73	12.75	7.7%
Minneapolis-St. Paul	12.69	11.91	6.5%	12.62	11.86	6.4%
Portland	14.66	13.90	5.5%	14.53	13.87	4.8%
Orlando-Daytona	11.21	10.76	4.2%	11.15	10.74	3.8%
All other markets	11.66	11.22	3.9%	11.62	11.21	3.7%
Total realized rent per square foot	$ 14.52	$ 13.88	4.6%	$ 14.45	$ 13.86	4.3%

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Same Store Facilities Operating Trends by Market (Continued)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
REVPAF:						
Los Angeles	$ 18.92	$ 18.03	4.9%	$ 18.69	$ 17.82	4.9%
San Francisco	20.05	18.79	6.7%	19.74	18.52	6.6%
New York	21.07	20.35	3.5%	20.82	20.17	3.2%
Chicago	13.21	12.62	4.7%	13.01	12.41	4.8%
Washington DC	19.09	18.69	2.1%	18.80	18.45	1.9%
Seattle-Tacoma	14.80	13.87	6.7%	14.52	13.64	6.5%
Miami	16.69	15.66	6.6%	16.52	15.51	6.5%
Dallas-Ft. Worth	10.80	10.12	6.7%	10.65	9.97	6.8%
Houston	11.29	10.43	8.2%	11.13	10.31	8.0%
Atlanta	9.95	9.36	6.3%	9.82	9.25	6.2%
Philadelphia	12.99	12.30	5.6%	12.79	12.13	5.4%
Denver	13.34	12.40	7.6%	12.99	12.09	7.4%
Minneapolis-St. Paul	12.17	11.40	6.8%	11.81	11.03	7.1%
Portland	14.17	13.19	7.4%	13.84	13.01	6.4%
Orlando-Daytona	10.47	10.04	4.3%	10.39	9.97	4.2%
All other markets	11.03	10.50	5.0%	10.86	10.37	4.7%
Total REVPAF	$ 13.75	$ 13.05	5.4%	$ 13.54	$ 12.87	5.2%

Net operating income for the New York, Washington DC, Chicago and Philadelphia markets for the six months ended June 30, 2014 were negatively impacted by increased snow removal and utility costs due to severe winter weather.

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

Non Same Store Facilities

The Non Same Store Facilities at June 30, 2014 represent 212 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2012, or that we did not own as of January 1, 2012. As a result of the stabilization process and timing of when the facilities were acquired, year-over-year changes can be significant. In the following table, “Other facilities” includes all facilities that we have owned, but were not yet stabilized as of January 1, 2012, three facilities that we obtained control of and began consolidating in 2012 and three newly developed facilities opened since January 1, 2013.

The following table summarizes operating data with respect to the Non Same Store Facilities:

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NON SAME STORE FACILITIES	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
	(Dollar amounts in thousands, except square foot amounts)					
Rental income:						
2014 third party acquisitions	$ 479	$ -	$ 479	$ 479	$ -	$ 479
2013 third party acquisitions	23,572	337	23,235	45,771	377	45,394
2012 third party acquisitions	6,779	5,285	1,494	13,213	10,242	2,971
Other facilities	17,176	15,775	1,401	33,508	31,134	2,374
Total rental income	48,006	21,397	26,609	92,971	41,753	51,218
Cost of operations before depreciation and amortization expense:						
2014 third party acquisitions	$ 192	$ -	$ 192	$ 192	$ -	$ 192
2013 third party acquisitions	7,728	151	7,577	16,372	160	16,212
2012 third party acquisitions	2,330	2,007	323	4,695	3,898	797
Other facilities	5,392	4,644	748			