

Public Storage
Form 10-K
February 26, 2013

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

FORM 10-K

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

For the fiscal year ended December 31, 2012.

or

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

For the transition period from to .

Commission File Number: 001-33519

PUBLIC STORAGE

(Exact name of Registrant as specified in its charter)

Maryland

95-3551121

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

701 Western Avenue, Glendale, California 91201-2349

(Address of principal executive offices) (Zip Code)

(818) 244-8080

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|--|---|
| Depository Shares Each Representing 1/1,000 of a 6.875% Cumulative Preferred Share, Series O \$.01 par value | New York Stock Exchange |

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| | |
|--|-------------------------|
| Depository Shares Each Representing 1/1,000 of a 6.500% Cumulative Preferred Share, Series P \$.01 par value | New York Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a 6.500% Cumulative Preferred Share, Series Q \$.01 par value | New York Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a 6.350% Cumulative Preferred Share, Series R \$.01 par value | New York Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a 5.900% Cumulative Preferred Share, Series S \$.01 par value | New York Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a 5.750% Cumulative Preferred Share, Series T \$.01 par value | New York Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a 5.625% Cumulative Preferred Share, Series U \$.01 par value | New York Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a 5.375% Cumulative Preferred Share, Series V \$.01 par value | New York Stock Exchange |
| Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W \$.01 par value | New York Stock Exchange |
| Common Shares, \$.10 par value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None (Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

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 the past 90 days.

Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Yes No

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as of June 30, 2012:

Common Shares, \$0.10 Par Value – \$20,712,158,000 (computed on the basis of \$144.41 per share which was the reported closing sale price of the Company's Common Shares on the New York Stock Exchange on June 30, 2012).

As of February 22, 2013, there were 171,728,085 outstanding Common Shares, \$.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2013 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

PART I

ITEM 1. Business

Forward Looking Statements

This Annual Report on Form 10-K 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 Item 1A, "Risk Factors" and in our other filings with the Securities and Exchange Commission ("SEC") including:

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

- risks related to the concentration of approximately 20% of our facilities in California;

- 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.

General

Public Storage was organized in 1980. Effective June 1, 2007, we reorganized Public Storage, Inc. into Public Storage (referred to herein as “the Company”, “the Trust”, “we”, “us”, or “our”), a Maryland real estate investment trust (“REIT”).

At December 31, 2012, our principal business activities are as follows:

- Domestic Self-Storage:** We acquire, develop, own, and operate self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use. We are the largest owner and operator of self-storage facilities in the United States (“U.S.”). We have direct and indirect equity interests in 2,078 self-storage facilities (132 million net rentable square feet of space) located in 38 states within the U.S. operating under the “Public Storage” brand name.
- European Self-Storage:** We have a 49% equity interest in Shurgard Europe, with an institutional investor owning the remaining 51% interest. Shurgard Europe owns 188 self-storage facilities (10 million net rentable square feet of space) located in seven countries in Western Europe which operate under the “Shurgard” brand name, and manages one facility located in the United Kingdom that we wholly own. We believe Shurgard Europe is the largest owner and operator of self-storage facilities in Western Europe.
- Commercial:** We have a 41% equity interest in PS Business Parks, Inc. (“PSB”), a publicly held REIT which owns and operates 28.3 million net rentable square feet of commercial space. We also wholly-own 1.4 million net rentable square feet of commercial space, substantially all of which is managed by PSB.

We conduct certain other activities that are not reported as separate segments including (i) the reinsurance of policies against losses to goods stored by tenants in our self-storage facilities, (ii) the sale of merchandise at our self-storage facilities and (iii) management of self-storage facilities owned by third-party owners and entities that we have an ownership interest in but are not consolidated.

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

We report annually to the SEC on Form 10-K, which includes financial statements certified by our independent registered public accountants. We have also reported quarterly to the SEC on Form 10-Q, which includes unaudited

financial statements with such filings. We expect to continue such reporting.

On our website, www.publicstorage.com, we make available, free of charge, our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC.

Competition

We believe that storage customers generally store their goods within a five mile radius of their home or business, and most of our facilities compete with other nearby self-storage facilities for these customers. Our competitors attract customers using the same marketing channels we use, including Internet advertising, yellow pages, signage, and banners. We believe customers usually have many choices among local operators, each who can meet their storage needs, and as a result, competition is significant and affects the occupancy levels, rental rates, rental income and operating expenses of our facilities.

While competition is significant, the self-storage industry remains fragmented in the U.S. We believe that we own approximately 5% of the aggregate self-storage square footage in the U.S., and that collectively the five largest self-storage operators in the U.S. own approximately 11%, with the remaining 89% owned by numerous private regional and local operators. This market fragmentation enhances the advantage of our economies of scale and brand name recognition. Our economies of scale are driven primarily by our concentration in major metropolitan markets; approximately 71% of our same-store revenues for 2012 were in the 20 Metropolitan Statistical Areas (“MSA’s”, as defined by the U.S. Census Bureau) with the highest population levels.

The fragmentation in the self-storage market also provides opportunities for us to acquire additional facilities; however, we compete for these acquisition opportunities with a wide variety of institutions and other investors who also view self-storage facilities as attractive investments. The amount of capital available for real estate investments greatly influences the competition for ownership interests in facilities and, by extension, the yields that we can achieve on newly acquired investments.

Business Attributes

We believe that we possess several primary business attributes that permit us to compete effectively:

Centralized information networks: Our centralized reporting and information network enables us to identify changing market conditions and operating trends as well as analyze customer data, and quickly change each of our individual properties’ pricing and promotional discounting on an automated basis.

Convenient shopping experience: Customers can conveniently shop the space available at our facilities, reviewing attributes such as facility location, size, amenities such as climate-control, as well as pricing, and learn about ancillary businesses through the following marketing channels:

- **Our Website:** The online marketing channel continues to grow in prominence, with approximately 47% of our move-ins in 2012 sourced through our website, as compared to 36% in 2010. In addition, we believe that many of our customers who directly call our call center, or who move-in to a facility on a walk-in basis, have often already reviewed our pricing and space availability through our website. We invest extensively in advertising on the Internet to attract potential customers, primarily through the use of search engines, and we regularly update and improve our website to enhance its productivity.
- **Our Call Center:** Our call center is staffed by sales specialists who are trained in phone selling skills. Customers reach our call center by calling i) our advertised toll-free telephone referral number, (800) 44-STORE, ii) an

individual storage location's telephone number advertised on each sign of our storage facilities, or iii) telephone numbers provided on our website. We believe giving customers the option to interact with a call center agent, despite the higher marginal cost relative to an internet reservation, enhances our ability to close sales with potential storage customers.

- **Walk-In:** Customers can also shop at any one of our facilities. Property managers access the same information that is available on our website and to our call center agents, and can inform the customer of storage alternatives at that site or our other nearby storage facilities. Property managers are extensively trained to maximize the conversion of such “walk in” shoppers into customers.

Economies of scale: We are the largest provider of self-storage space in the U.S. As of December 31, 2012, we operated 2,078 self-storage facilities in which we had an interest with over one million self-storage spaces rented. These facilities are generally located in major markets within 38 states in the U.S. The size and scope of our operations have enabled us to achieve high operating margins and a low level of administrative costs relative to revenues through the centralization of many functions, such as facility maintenance, employee compensation and benefits programs, revenue management, as well as the development and documentation of standardized operating procedures. We also believe that our major market concentration provides managerial efficiencies stemming from having a large number of facilities in close proximity to each other.

Our market share and concentration in major metropolitan centers makes various promotional and media programs more cost-beneficial for us than for our competitors. As noted above, approximately 71% of our same-store revenues for 2012 were in the 20 MSA’s with the highest population levels. Our large market share and well-recognized brand name increases the likelihood that our facilities will appear prominently in unpaid search results for “self-storage” in Google and other search engines, and enhances the efficiency of our bidding for paid multiple-keyword advertising. We can use television advertising in many markets, while most of our competitors cannot do so cost-effectively.

Brand name recognition: We believe that the “Public Storage” brand name is the most recognized and established name in the self-storage industry in the U.S, due to our national reach in major markets in 38 states, and our highly visible facilities, with their distinct orange colored doors and signage, that are located principally in heavily populated areas. We believe the “Public Storage” name is one of the most frequently used search terms used by customers using Internet search engines for self-storage. We believe that the “Shurgard” brand, used by Shurgard Europe, is a similarly established and valuable brand in Europe. We believe that the awareness of our brand name results in a high percentage of potential storage customers considering our facilities, relative to other operators.

Growth and Investment Strategies

Our growth strategies consist of: (i) improving the operating performance of our existing self-storage facilities, (ii) acquiring more facilities, (iii) developing new self-storage space, (iv) participating in the growth of commercial facilities, primarily through our investment in PSB, and (v) participating in the growth of Shurgard Europe. While our long-term strategy includes each of these elements, in the short run the level of growth in our asset base in any period is dependent upon the cost and availability of capital, as well as the relative attractiveness of investment alternatives.

Improve the operating performance of existing facilities: We seek to increase the net cash flow generated by our existing self-storage facilities by a) regularly analyzing our call volume, reservation activity, move-in/move-out rates and other market supply and demand factors and responding by adjusting our marketing activities and rental rates, b) attempting to maximize revenues through evaluating the appropriate balance between occupancy, rental rates, and promotional discounting and c) controlling operating costs. We believe that our property management personnel, systems, our convenient shopping options for the customer, and our media advertising programs will continue to enhance our ability to meet these goals.

Acquire properties owned or operated by others in the U.S.: We seek to capitalize on the fragmentation of the self-storage business through acquiring attractively priced, well-located existing self-storage facilities. We believe our presence in and knowledge of substantially all of the major markets in the U.S. enhances our ability to identify attractive acquisition opportunities. Data on the rental rates and occupancy levels of our existing facilities provide us an advantage in evaluating the potential of acquisition opportunities. Over the past three years, we have acquired 77 facilities from third parties (5.5 million net rentable square feet) for approximately \$546 million, including 24 facilities (1.9 million net rentable square feet) for approximately \$226 million in 2012. The level of third-party acquisition opportunities available depends upon many factors, such as the motivation of potential sellers to liquidate their investments as well as the financing available to self-storage owners. We decide whether to pursue any such acquisition opportunities based upon many factors including our opinion as to the potential for future growth, the quality of construction and location, and our yield expectations. We will continue to seek to acquire properties in 2013.

Develop new self-storage space: The development of new self-storage locations and the expansion of existing self-storage facilities has been, from time to time, an important source of growth. Over the past three years our development activities were minimal. We have recently expanded our development efforts due in part to the significant increase in prices being paid for existing facilities, in many cases well above the cost of developing new facilities. At December 31, 2012, we had a development pipeline of projects to expand existing self-storage facilities and develop new self-storage facilities, which will add approximately 1.3 million net rentable square feet of self-storage space. The aggregate cost of these projects is estimated at \$169 million, of which \$36 million had been incurred at December 31, 2012, and the remaining costs will be incurred principally in 2013. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects and have hired additional personnel; however, due to the difficulty in finding projects that meet our risk-adjusted yield expectations, as well as the difficulty in obtaining building permits for self-storage activities in certain municipalities, it is uncertain as to how much additional development we will undertake in the future.

Participate in the growth of commercial facilities primarily through our ownership in PS Business Parks, Inc.: Our investment in PSB provides us diversification into another asset type, and we have no plans of disposing of our investment in PSB. During 2010 and 2011, the challenging economic trends in commercial real estate resulted in year over year decreases in rental income for PSB's "Same Park" facilities. During 2012, economic trends have improved, and PSB's "Same Park" facilities had growth in rental income. It is uncertain what impact these trends will have on PSB's future occupancy levels and rental income.

Over the past three years, PSB has been able to grow its portfolio through acquisitions. In 2010 and 2011, PSB acquired an aggregate total of 7.9 million net rentable square feet of commercial space for an aggregate purchase price of approximately \$855.2 million, and in 2012, PSB acquired 1.2 million net rentable square feet for an aggregate purchase price of \$52.5 million. PSB is a stand-alone public company traded on the New York Stock Exchange. As of December 31, 2012, PSB owned and operated approximately 28.3 million net rentable square feet of commercial space, and had an enterprise value of approximately \$3.4 billion (based upon the trading price of PSB's common stock combined with the liquidation value of its debt and preferred stock as of December 31, 2012).

Participate in the growth of European self-storage through ownership in Shurgard Europe: Shurgard Europe is the largest self-storage company in Western Europe, and owns and operates 188 facilities with approximately 10 million net rentable square feet in seven countries: France (principally Paris), Sweden (principally Stockholm), the United Kingdom (principally London), the Netherlands, Denmark (principally Copenhagen), Belgium and Germany. We own 49% of Shurgard Europe, with the other 51% owned by a large U.S. institutional investor.

Customer awareness and availability of self-storage is significantly lower in Shurgard Europe's markets than in the U.S. With more awareness and product supply, we believe there is potential for increased demand for storage space in Europe. In the long run, we believe Shurgard Europe could capitalize on potential increased demand through the development of new facilities or, to a lesser extent, acquiring existing facilities.

Shurgard Europe has a term loan from a bank (the "Bank Loan") with a balance of approximately €159.5 million (\$210.8 million) at December 31, 2012, which matures in November 2014. Shurgard Europe also has a loan due to us totaling €311.0 million (\$411.0 million) at December 31, 2012, which matures in February 2015. The Bank Loan requires Shurgard Europe to utilize a significant amount of its operating cash flow to reduce the outstanding principal. As a result, and in the absence of additional capital contributions by either us or our joint venture partner, Shurgard Europe's ability to finance new investments will be constrained until its debt is refinanced.

Financing of the Company's Growth Strategies

Overview of financing strategy: We have historically financed our investment activities with permanent capital, predominantly retained cash flow, the net proceeds from the issuance of preferred securities and common shares. Since we rarely dispose of our investments, we believe that financing with substantially permanent capital properly matches our long-lived real estate assets and avoids future refinancing risk. Further, we have elected to use preferred securities as a form of leverage despite the fact that the dividend rates of our preferred securities exceed the prevailing market interest rates on conventional debt, because of certain benefits described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources." Our present intention is to continue to finance substantially all our growth with internally generated cash flows and permanent capital. We believe that we are not dependent upon raising capital to fund our ongoing operations or meet our obligations. However, in order to grow our asset base, access to capital is important.

Issuance of preferred and common securities: When seeking capital, we generally select the lowest-cost form of permanent capital which is dependent on market conditions. During periods of favorable market conditions, we have generally been able to raise capital from preferred securities at an attractive cost of capital relative to the issuance of our common shares. During the years ended December 31, 2012 and 2011, we issued approximately \$1.7 billion and \$862.5 million, respectively, of preferred securities, and on January 16, 2013, we issued another \$500.0 million of preferred securities. In December 2012, we raised approximately \$101 million from the sale of Public Storage common shares owned by a wholly-owned subsidiary, which will enable that subsidiary to efficiently liquidate.

Borrowing on Line of Credit: We have in the past used our \$300 million revolving line of credit as temporary "bridge" financing, and repaid borrowings with permanent capital. Most recently, on December 27, 2012, we borrowed \$133.0 million on our line of credit to fund a portion of cash redemption costs for preferred securities, and on January 16, 2013 all outstanding amounts were repaid following the issuance of preferred securities.

Borrowing through mortgage loans or senior debt: While it is not our present intention to issue additional debt as a long-term financing strategy, we have broad powers to borrow in furtherance of our objectives without a vote of our shareholders. These powers are subject to a limitation on unsecured borrowings in our Bylaws described in "Limitations on Debt" below.

Our senior debt has an "A" credit rating by Standard and Poor's. Notwithstanding our desire to continue to meet our capital needs with permanent capital, this high rating, combined with our low level of debt, could allow us to issue a significant amount of unsecured debt at lower interest rates than the coupon on preferred securities if we were to choose to do so.

Assumption of Debt: When we have assumed debt in the past, we have generally prepaid such amounts except in cases where the nature of the loan terms did not allow such prepayment, or where a prepayment penalty made it economically disadvantageous to prepay. Substantially all of our debt outstanding was assumed in connection with real estate acquisitions.

Issuance of securities in exchange for property: We have issued both our common and preferred securities in exchange for real estate and other investments in the past. Future issuances will be dependent upon our financing needs and capital market conditions at the time, including the market prices of our equity securities.

Joint Venture financing: In the past, we have formed joint ventures, and in the future we may form additional joint ventures to facilitate the funding of future developments or acquisitions. However, we can generally issue preferred securities on more favorable terms than joint venture financing.

Disposition of properties: Generally, we have disposed of self-storage facilities only when compelled to do so through condemnation proceedings. We do not presently intend to sell any significant number of self-storage facilities in the future, though there can be no assurance that we will not.

Investments in Real Estate and Unconsolidated Real Estate Entities

Investment Policies and Practices with respect to our investments: Following are our investment practices and policies which, though we do not anticipate any significant alteration, can be changed by our Board of Trustees without a shareholder vote:

- Our investments primarily consist of direct ownership of self-storage facilities (the nature of our self-storage facilities is described in Item 2, “Properties”), as well as partial interests in entities that own self-storage facilities.
- Our partial ownership interests primarily reflect general and limited partnership interests in entities that own self-storage facilities that are managed by us under the “Public Storage” brand name in the U.S., as well as storage facilities managed in Europe under the “Shurgard” brand name which are owned by Shurgard Europe.
- Additional acquired interests in real estate (other than the acquisition of properties from third parties) will include common equity interests in entities in which we already have an interest.
- To a lesser extent, we have interests in existing commercial properties (described in Item 2, “Properties”), containing commercial and industrial rental space, primarily through our investment in PSB.

Facilities Owned by Subsidiaries

In addition to our direct ownership of 2,049 self-storage facilities in the U.S. and one self-storage facility in London, England at December 31, 2012, we have controlling indirect interests in entities that own 15 self-storage facilities in the U.S. with approximately one million net rentable square feet. Due to our controlling interest in each of these entities, we consolidate the assets, liabilities, and results of operations of these entities in our financial statements.

Facilities Owned by Unconsolidated Real Estate Entities

At December 31, 2012, we had ownership interests in entities that we do not control or consolidate, comprised of PSB, Shurgard Europe (discussed above), and various limited partnerships that own an aggregate of 14 self-storage facilities with approximately 0.8 million net rentable square feet of storage space. These entities are referred to collectively as the “Unconsolidated Real Estate Entities.”

PSB, which files financial statements with the SEC, and Shurgard Europe, have debt and other obligations that we do not consolidate in our financial statements. None of the other Unconsolidated Real Estate Entities have significant amounts of debt or other obligations. See Note 4 to our December 31, 2012 financial statements for further disclosure regarding the assets, liabilities and operating results of the Unconsolidated Real Estate Entities.

Limitations on Debt

Without the consent of holders of the various series of Senior Preferred Shares, we may not take any action that would result in our “Debt Ratio” exceeding 50%. “Debt Ratio”, as defined in the related governing documents, represents generally the ratio of debt to total assets before accumulated depreciation and amortization on our balance sheet, in accordance with U.S. generally accepted accounting principles. As of December 31, 2012, the Debt Ratio was approximately 4%.

Our bank and senior unsecured debt agreements contain various customary financial covenants, including limitations on the level of indebtedness and the prohibition of the payment of dividends upon the occurrence of defined events of default. We believe we have met each of these covenants as of December 31, 2012.

Employees

We have approximately 5,000 employees in the U.S. at December 31, 2012 who render services on behalf of the Company, primarily personnel engaged in property operations.

Seasonality

We experience minor seasonal fluctuations in the occupancy levels of self-storage facilities with occupancies generally higher in the summer months than in the winter months. We believe that these fluctuations result in part from increased moving activity during the summer months.

Insurance

We have historically carried customary property, earthquake, general liability, medical insurance provided to our employees, 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 loss 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.

Our tenant insurance program reinsures a program that provides insurance to certificate holders against claims for property losses due to specific named perils (earthquakes are not covered by these policies) to goods stored by tenants at our self-storage facilities for individual limits up to a maximum of \$5,000. We have third-party insurance coverage for claims paid exceeding \$5.0 million resulting from any one individual event, to a limit of \$15.0 million. At December 31, 2012, there were approximately 700,000 certificate holders held by our self-storage tenants participating in this program, representing aggregate coverage of approximately \$1.5 billion. We rely on a third-party insurance company to provide the insurance and are subject to licensing requirements and regulations in several states.

ITEM 1A. Risk Factors

In addition to the other information in our Annual Report on Form 10-K, you should consider the risks described below that we believe may be material to investors in evaluating the Company. This section contains forward-looking statements, and in considering these statements, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Item 1.

We have significant exposure to real estate risk.

Since our business consists primarily of acquiring and operating real estate, we are subject to the risks related to the ownership and operation of real estate that can adversely impact our business and financial condition. These risks include the following:

Natural disasters or terrorist attacks could cause damage to our facilities, resulting in increased costs and reduced revenues. Natural disasters, such as earthquakes, hurricanes and floods, or terrorist attacks could cause significant damage and require significant repair costs, and make facilities temporarily uninhabitable, reducing our revenues. Damage and business interruption losses could exceed the aggregate limits of our insurance coverage. In addition, because we self-insure a portion of our risks, losses below a certain level may not be covered by insurance. See Note 13 to our December 31, 2012 financial statements for a description of the risks of losses that are not covered by third-party insurance contracts. We may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be maintained, available or cost-effective. In addition, significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflicts could have negative impacts on the U.S. economy, reducing storage demand and impairing our operating results.

Operating costs could increase. We could be subject to increases in insurance premiums, increased or new property tax assessments or other taxes, repair and maintenance costs, payroll, utility costs, workers compensation, and other operating expenses due to various factors such as inflation, labor shortages, commodity and energy price increases.

The acquisition of existing properties is subject to risks that may adversely affect our growth and financial results. We have acquired material amounts of self-storage facilities from third parties in the past, and we expect to continue to do so in the future. We face significant competition for suitable acquisition properties from other real estate investors. As a result, we may be unable to acquire additional properties we desire or the purchase price for desirable properties may be significantly increased. Failures or unexpected circumstances in integrating newly acquired properties into our operations or circumstances we did not detect during due diligence, such as environmental matters, needed repairs or deferred maintenance, or the effects of increased property tax following reassessment of a newly-acquired property, as well as the general risks of real estate investment, could jeopardize realization of the anticipated earnings from an acquisition.

Development of self-storage facilities can subject us to risks. At December 31, 2012, we have a pipeline of development projects totaling \$169 million (subject to contingencies), and we expect to continue to seek additional development projects. There are significant risks involved in developing self-storage facilities, such as delays or cost increases due to changes in or failure to meet government or regulatory requirements, weather issues, unforeseen site conditions, or personnel problems. Self-storage space is generally not pre-leased, and rent-up of newly developed space can be delayed or ongoing cash flow yields can be reduced due to competition, reductions in storage demand, or other factors.

There is significant competition among self-storage facilities and from other storage alternatives. Most of our properties are self-storage facilities, which generated most of our revenue for the year ended December 31,

2012. Competition in the local market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. If development of self-storage facilities by other operators were to increase, due to increases in availability of funds for investment or other reasons, competition with our facilities could intensify.

We may incur significant liabilities from hazardous wastes or moisture infiltration. Existing or future laws impose or may impose liability on us to clean up environmental contamination on or around properties that we currently or previously owned or operated, even if we weren't responsible for or aware of the environmental contamination or even if such environmental contamination occurred prior to our involvement with the property. We have conducted preliminary environmental assessments on most of our properties, which have not identified material liabilities. These assessments, commonly referred to as "Phase 1 Environmental Assessments," include an investigation (excluding soil or groundwater sampling or analysis) and a review of publicly available information regarding the site and other nearby properties.

We are also subject to potential liability relating to moisture infiltration, which can result in mold or other damage to our or our tenants' property, as well as potential health concerns. When we receive a complaint or otherwise become aware that an air quality concern exists, we implement corrective measures and seek to work proactively with our tenants to resolve issues, subject to our contractual limitations on liability for such claims.

We are not aware of any hazardous waste or moisture infiltration related liabilities that could be material to our overall business, financial condition, or results of operation. However, we may not have detected all material liabilities, we could acquire properties with material undetected liabilities, or new conditions could arise or develop in the future. Settling any such liabilities could negatively impact our earnings and cash available for distribution to shareholders, and could also adversely affect our ability to sell, lease, operate, or encumber affected facilities.

We incur liability from tenant and employment-related claims. From time to time we have to make monetary settlements or defend actions or arbitration (including class actions) to resolve tenant or employment-related claims and disputes.

Economic conditions can adversely affect our business, financial condition, growth and access to capital.

Our revenues and operating cash flow can be negatively impacted by reductions in employment and population levels, household and disposable income, and other general economic factors that lead to a reduction in demand for rental space in each of the markets in which we operate our properties.

Our ability to issue preferred shares or access other sources of capital, such as borrowing, has been in the past, and may in the future be, adversely affected by challenging credit market conditions. The issuance of perpetual preferred securities historically has been a significant source of capital to grow our business. We believe that we have sufficient working capital and capacity under our credit facilities and our retained cash flow from operations to continue to operate our business as usual and meet our current obligations. However, if we were unable to issue preferred shares or borrow at reasonable rates, prospective earnings growth through expanding our asset base would be limited.

We have exposure to European operations through our ownership in Shurgard Europe.

As a result of our ownership of 49% of the equity in Shurgard Europe with a book value of \$411.1 million at December 31, 2012, and our loan to Shurgard Europe totaling \$411.0 million at December 31, 2012, we are exposed to additional risks related to the ownership and operation of international businesses that may adversely impact our business and financial results, including the following:

- Currency risks: Currency fluctuations can impact the fair value of our investment in, and loan to Shurgard Europe, as well as the related income we receive.
-

Legislative, tax, and regulatory risks: We are subject to complex foreign laws and regulations related to permitting and land use, the environment, labor, and other areas, as well as income, property, sales, value added and employment tax laws. These laws can be difficult to apply or interpret and can vary in each country or locality, and are subject to unexpected changes in their form and application due to regional, national, or local political uncertainty and other factors. Such changes, or Shurgard's failure to comply with these laws, could subject it to penalties or other sanctions, adverse changes in business processes, as well as potentially adverse income tax, property tax, or other tax burdens.

- Impediments to capital repatriation could negatively impact the realization of our investment in Shurgard Europe: Laws in Europe and the U.S. may create, impede or increase the cost to Public Storage of, repatriation of funds we have invested in Shurgard Europe or our share of Shurgard Europe's earnings.
- Risks of collective bargaining and intellectual property: Collective bargaining, which is prevalent in certain areas in Europe, could negatively impact Shurgard Europe's labor costs or operations.
- Potential operating and individual country risks: Economic slowdowns or extraordinary political or social change in the countries in which it operates could pose challenges or result in future reductions of Shurgard Europe's same-store revenues.
- Impediments of Shurgard Europe's joint venture structure: Shurgard Europe's significant decisions, involving activities such as borrowing money, capital contributions, raising capital from third parties, as well as selling or acquiring significant assets, require the consent of our joint venture partner. As a result, Shurgard Europe may be precluded from taking advantage of opportunities that we would find attractive. In addition, we could be unable to separately pursue such opportunities due to certain market exclusivity provisions of the Shurgard Europe joint venture agreement, and our 49% equity investment may not be easily sold or readily accepted as collateral by potential lenders to Public Storage due to the joint venture structure.
- Refinancing risks: Shurgard Europe has a loan due to a bank (the "Bank Loan"), maturing in November 2014, totaling \$210.8 million (€159.5 million), and a loan due to us, maturing in February 2015, totaling \$411.0 million at December 31, 2012. As a condition of the Bank Loan, Shurgard Europe must use most of its available cash flow to make principal payments on the Bank Loan. As a result, the Bank Loan will be paid down and mature before ours, increasing the risk of nonpayment or default on our loan. In addition, if Shurgard Europe cannot refinance its debt upon maturity due to a constrained credit market, negative operating trends, or other factors, it may not be able to pay either the Bank Loan or our loan when due and the value of our equity investment could be negatively impacted. We may also be forced to pursue less advantageous options, such as an additional equity contribution or loan, extending the maturity date of our loan, or exercising our lender rights.

The Hughes Family could control us and take actions adverse to other shareholders.

At December 31, 2012, B. Wayne Hughes, our former Chairman, and his family, which includes two members of the board of trustees (the "Hughes Family") owned approximately 15.9% of our aggregate outstanding common shares. Our declaration of trust permits the Hughes Family to own up to 35.66% of our outstanding common shares while it generally restricts the ownership by other persons and entities to 3% of our outstanding common shares. Consequently, the Hughes Family may significantly influence matters submitted to a vote of our shareholders, including electing trustees, amending our organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt, resulting in an outcome that may not be favorable to other shareholders.

Takeover attempts or changes in control could be thwarted, even if beneficial to shareholders.

In certain circumstances, shareholders might desire a change of control or acquisition of us, in order to realize a premium over the then-prevailing market price of our shares or for other reasons. However, the following could prevent, deter, or delay such a transaction:

- Provisions of Maryland law may impose limitations that may make it more difficult for a third party to negotiate or effect a business combination transaction or control share acquisition with Public Storage. Currently, the Board has opted not to subject the Company to these provisions of Maryland law, but it could choose to do so in the future without shareholder approval.
- To protect against the loss of our REIT status due to concentration of ownership levels, our declaration of trust generally limits the ability of a person, other than the Hughes Family or “designated investment entities” (each as defined in our declaration of trust), to own, actually or constructively, more than 3% of our outstanding common shares or 9.9% of the outstanding shares of any class or series of preferred or equity shares, in either case unless a specific exemption is granted by our board of trustees. These limits could discourage, delay or prevent a transaction involving a change in control of our company not approved by our board of trustees.
- Similarly, current provisions of our declaration of trust and powers of our Board of Trustees could have the same effect, including (1) limitations on removal of trustees in our declaration of trust, (2) restrictions on the acquisition of our shares of beneficial interest, (3) the power to issue additional common shares, preferred shares or equity shares on terms approved by the Board without obtaining shareholder approval, (4) the advance notice provisions of our bylaws and (5) the Board’s ability under Maryland law, without obtaining shareholder approval, to implement takeover defenses that we may not yet have and to take, or refrain from taking, other actions that could have the effect of delaying, deterring or preventing a transaction or a change in control.

If we failed to qualify as a REIT, we would have to pay substantial income taxes.

REITs are subject to a range of complex organizational and operational requirements. A qualifying REIT does not generally incur federal income tax on its net income that is distributed to its shareholders. Our REIT status is also dependent upon the ongoing REIT qualification of our affiliate, PSB, as a REIT, as a result of our substantial ownership interest in that company. We believe that we are organized and have operated as a REIT and we intend to continue to operate to maintain our REIT status.

There can be no assurance that we qualify or will continue to qualify as a REIT. The highly technical nature of the REIT rules, the ongoing importance of factual determinations, the possibility of unidentified issues in prior periods or changes in our circumstances, all could adversely affect our ability to comply. For any taxable year that we fail to qualify as a REIT and statutory relief provisions did not apply, we would be taxed at the regular federal corporate rates on all of our taxable income and we also could be subject to penalties and interest. We would generally not be eligible to seek REIT status again until the fifth taxable year after the first year of failure to qualify. Any taxes, interest and penalties incurred would reduce the amount of cash available for distribution to our shareholders or for reinvestment and would adversely affect our earnings, which could have a material adverse effect.

We may pay some taxes, reducing cash available for shareholders.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, foreign, state and local taxes on our income and property. Since January 1, 2001, certain corporate subsidiaries of the Company have elected to be treated as “taxable REIT subsidiaries” for federal income tax purposes, and are taxable as regular

corporations and subject to certain limitations on intercompany transactions. If tax authorities determine that amounts paid by our taxable REIT subsidiaries to us are greater than what would be paid under similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess payments, and ongoing intercompany arrangements could have to change, resulting in higher ongoing tax payments. To the extent the Company is required to pay federal, foreign, state or local taxes or federal penalty taxes, we will have less cash available for distribution to shareholders.

We are heavily dependent on computer systems, telecommunications and the Internet to process transactions, summarize results and manage our business and security breaches or a failure of such networks, systems or technology could adversely impact our business and customer relationships.

We are heavily dependent upon automated information technology and Internet commerce, with approximately half of our new tenants coming from the telephone or over the Internet, and the nature of our business involves the receipt and retention of personal information about our customers. We centrally manage significant components of our operations with our computer systems, including our financial information, and we also rely extensively on third-party vendors to retain data, process transactions and provide other systems services. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer worms, viruses and other destructive or disruptive security breaches and catastrophic events.

As a result, our operations could be severely impacted by a natural disaster, terrorist attack or other circumstance that resulted in a significant outage at our systems or those of our third party providers, despite our use of back up and redundancy measures. Further, viruses and other related risks could negatively impact our information technology processes. We could also be subject to a “cyber-attack” or other data security breach which would penetrate our network security, resulting in misappropriation of our confidential information, including customer personal information. System disruptions and shutdowns could also result in additional costs to repair or replace such networks or information systems and possible legal liability, including government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue leasing our self-storage facilities. Such events could lead to lost future sales and adversely affect our results of operations.

We have no ownership interest in Canadian self-storage facilities owned or operated by the Hughes Family.

At December 31, 2012, the Hughes Family had ownership interests in, and operated, 53 self-storage facilities in Canada (the “Canadian Self-Storage Facilities”). These facilities are operated under the “Public Storage” tradename, which we license to the Hughes Family for use in Canada on a royalty-free, non-exclusive basis. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of the Canadian Self-Storage Facilities if the Hughes Family or the corporation agrees to sell them. However, we do not benefit from profits or potential appreciation in value of the Canadian Self-Storage Facilities because we have no ownership interest in these facilities. We do not operate in the Canadian self-storage market, and have no plans to do so. However, if we choose to do so without acquiring the Hughes Family interests in the Canadian Self-Storage Facilities, we may have to share the use of the “Public Storage” name in Canada with the Hughes Family, unless we are able to terminate the license agreement.

Through our subsidiaries, we reinsure risks relating to loss of goods stored by tenants in the Canadian Self-Storage Facilities. During each of the three years ended December 31, 2012, we received \$0.6 million in reinsurance premiums attributable to the Canadian Self-Storage Facilities. Because our right to earn these premiums may be qualified, there is no assurance that these premiums will continue.

We are subject to laws and governmental regulations and actions that require us to incur compliance costs affecting our operating results and financial condition.

Our business is subject to regulation under a wide variety of U.S. federal, state and local laws, regulations and policies including those imposed by the SEC, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act and New York Stock Exchange, as well as applicable labor laws. Although we have policies and procedures designed to comply with applicable laws and regulations, failure to comply with the various laws and

regulations may result in civil and criminal liability, fines and penalties, increased costs of compliance, restatement of our financial statements and could also affect the marketability of our real estate facilities.

The Patient Protection and Affordable Care Act as well as other healthcare reform legislation recently passed or being considered by Congress and state legislatures (collectively, the “Healthcare Legislation”) are expected to impact our business beginning in 2014. Based on its current form, we believe that the Healthcare Legislation will at least moderately increase our costs; however, there could be a significant further negative impact to our costs and business depending upon how the various governmental agencies design and implement the specific regulations to implement the Patient Protection and Affordable Care Act, the nature of further legislation that may be passed at the national and local level, and other factors.

In response to current economic conditions or the current political environment or otherwise, laws and regulations could be implemented or changed in ways that adversely affect our operating results and financial condition, such as legislation that could facilitate union activity or that would otherwise increase operating costs.

All our properties must comply with the Americans with Disabilities Act and with related regulations and similar state law requirements, as well as various real estate and zoning laws and regulations, which are subject to change and could become more costly to comply with in the future. Compliance with these requirements can require us to incur significant expenditures, which would reduce cash otherwise available for distribution to shareholders. A failure to comply with these laws could lead to fines or possible awards of damages to individuals affected by the non-compliance. Failure to comply with these requirements could also affect the marketability of our real estate facilities.

Our tenant insurance business is subject to governmental regulation which could reduce our profitability or limit our growth.

We hold Limited Lines Self-Service Storage Insurance Agent licenses from a number of individual state Departments of Insurance and are subject to state governmental regulation and supervision. Our continued ability to maintain these Limited Lines Self-Service Storage Insurance Agent licenses in the jurisdictions in which we are licensed depends on our compliance with related rules and regulations. The regulatory authorities in each jurisdiction generally have broad discretion to grant, renew and revoke licenses and approvals, to promulgate, interpret, and implement regulations, and to evaluate compliance with regulations through periodic examinations, audits and investigations of the affairs of insurance agents. As a result of regulatory or private action in any jurisdiction, we may be temporarily or permanently suspended from continuing some or all of our reinsurance activities, or otherwise fined or penalized or suffer an adverse judgment. For the year ended December 31, 2012, we recorded a total of \$63.5 million in net income from our tenant reinsurance activities.

Developments in California may have an adverse impact on our business and financial results.

Approximately one fifth of our U.S. properties, and our corporate headquarters, are located in California. California is facing budgetary problems and deficits. Actions that may be taken in response to these problems, such as increases in property taxes, changes to sales taxes, adoption of a proposed “Business Net Receipts Tax” or other governmental efforts to raise revenues, could adversely impact our business and results of operations. There has been legislative discussion regarding the repeal of certain components of “Proposition 13,” which, if so repealed, could result in a substantial increase in our property tax expense.

ITEM 1B. Unresolved Staff Comments

None.

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ITEM 2. Properties

At December 31, 2012, we had direct and indirect ownership interests in 2,078 self-storage facilities located in 38 states within the U.S. and 189 storage facilities located in seven Western European nations:

| | At December 31, 2012 | |
|--------------------------|--|---|
| | Number of Storage Facilities (a) | Net Rentable Square Feet (in thousands) |
| U.S.: | | |
| California: | | |
| Southern | 241 | 16,904 |
| Northern | 173 | 10,198 |
| Texas | 237 | 15,687 |
| Florida | 199 | 13,128 |
| Illinois | 126 | 7,904 |
| Georgia | 95 | 6,196 |
| Washington | 91 | 6,028 |
| North Carolina | 68 | 4,704 |
| Virginia | 78 | 4,471 |
| New York | 65 | 4,318 |
| Colorado | 59 | 3,713 |
| New Jersey | 56 | 3,549 |
| Maryland | 57 | 3,404 |
| Minnesota | 43 | 2,931 |
| Michigan | 43 | 2,755 |
| Arizona | 38 | 2,314 |
| South Carolina | 40 | 2,155 |
| Missouri | 37 | 2,136 |
| Oregon | 39 | 2,006 |
| Pennsylvania | 29 | 1,993 |
| Indiana | 31 | 1,926 |
| Ohio | 31 | 1,922 |
| Nevada | 27 | 1,818 |
| Tennessee | 27 | 1,528 |
| Kansas | 22 | 1,310 |
| Massachusetts | 20 | 1,249 |
| Wisconsin | 15 | 968 |
| Other states (12 states) | 91 | 5,154 |
| Total – U.S. | 2,078 | 132,369 |
| Europe (b): | | |
| France | 56 | 2,949 |
| Netherlands | 40 | 2,182 |
| Sweden | 30 | 1,629 |
| Belgium | 21 | 1,265 |
| United Kingdom | 21 | 1,026 |

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| | | |
|----------------|-------|---------|
| Denmark | 10 | 562 |
| Germany | 11 | 553 |
| Total - Europe | 189 | 10,166 |
| Grand Total | 2,267 | 142,535 |

(a) See Schedule III: Real Estate and Accumulated Depreciation in the Company's 2012 financials, for a complete list of properties consolidated by the Company.

(b) The facilities located in Europe include one facility in the United Kingdom that we wholly own, as well as the facilities owned by Shurgard Europe.

We seek to maximize our facilities' cash flow through the regular review and adjustment of rents charged to our existing and new incoming tenants, and controlling expenses. For the year ended December 31, 2012, the weighted average occupancy level and the average realized rent per occupied square foot for our self-storage facilities were approximately 91.5% and \$13.54, respectively, in the U.S. and 80.7% and \$26.23, respectively, in Europe.

At December 31, 2012, 64 of our U.S. facilities were encumbered by an aggregate of \$149 million in secured notes payable. These facilities had a net book value of \$344 million at December 31, 2012.

We have no specific policy as to the maximum size of any one particular self-storage facility. However, none of our facilities involves, or is expected to involve, 1% or more of our total assets, gross revenues or net income.

Description of Self-Storage Facilities: Self-storage facilities, which comprise the majority of our investments, are designed to offer accessible storage space for personal and business use at a relatively low cost. A user rents a fully enclosed space, securing the space with their lock, which is for the user's exclusive use and to which only the user has access on an unrestricted basis during business hours. On-site operation is the responsibility of property managers who are supervised by district managers. Some self-storage facilities also include rentable uncovered parking areas for vehicle storage. Storage spaces are rented on a month-to-month basis. Rental rates vary according to the location of the property, the size of the storage space, and other characteristics that affect the relative attractiveness of each particular space, such as whether the space has "drive-up" access or its proximity to elevators. All of our self-storage facilities in the U.S. are operated under the "Public Storage" brand name, while our facilities in Europe are operated under the "Shurgard" brand name.

Users include individuals from virtually all demographic groups, as well as businesses. Individuals usually obtain this space for storage of furniture, household appliances, personal belongings, motor vehicles, boats, campers, motorcycles and other household goods. Businesses normally employ this space for storage of excess inventory, business records, seasonal goods, equipment and fixtures.

Our self-storage facilities generally consist of between 350 to 750 storage spaces, most of which have between 25 and 400 square feet and an interior height of approximately eight to 12 feet.

We experience minor seasonal fluctuations in the occupancy levels of self-storage facilities with occupancies generally higher in the summer months than in the winter months. We believe that these fluctuations result in part from increased moving activity during the summer months and incremental demand from college students.

Our self-storage facilities are geographically diversified and are located primarily in or near major metropolitan markets in 38 states in the U.S. Generally our self-storage facilities are located in heavily populated areas and close to concentrations of apartment complexes, single family residences and commercial developments.

Competition from other self-storage facilities is significant and impacts the occupancy levels and rental rates for many of our properties.

We believe that self-storage facilities, upon achieving stabilized occupancy levels of approximately 90%, have attractive characteristics consisting of high profit margins, a broad tenant base and low levels of capital expenditures to maintain their condition and appearance. Historically, upon stabilization after an initial fill-up period, our U.S. self-storage facilities have generally shown a high degree of stability in generating cash flows.

Description of Commercial Properties: We have an interest in PSB, which, as of December 31, 2012, owns and operates approximately 28.3 million net rentable square feet of commercial space in eight states. At December 31,

2012, the \$316 million book value and \$852 million market value, respectively, of our investment in PSB represents approximately 4% and 10%, respectively of our total assets. We also directly own 1.4 million net rentable square feet of commercial space managed primarily by PSB, primarily representing individual retail locations at our existing self-storage locations.

The commercial properties owned by PSB consist primarily of flex, multi-tenant office and industrial space. Flex space is defined as buildings that are configured with a combination of office and warehouse space and can be designed to fit a wide variety of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse space).

Environmental Matters: We accrue environmental assessments and estimated remediation cost when it is probable that such efforts will be required and the related costs can be reasonably estimated. Our current practice is to conduct environmental investigations in connection with property acquisitions. Although there can be no assurance, we are not aware of any environmental contamination of any of our facilities, which individually or in the aggregate would be material to our overall business, financial condition, or results of operations.

ITEM 3. Legal Proceedings

We are a party to various other legal proceedings and subject to various claims and complaints that have arisen in the normal course of business. We believe that the likelihood of these pending legal matters and other contingencies resulting in a material loss to the Company, either individually or in the aggregate, is remote.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

a. Market Information of the Registrant's Common Equity:

Our Common Shares (NYSE: PSA) have been listed on the New York Stock Exchange since October 19, 1984. The following table sets forth the high and low sales prices of our Common Shares on the New York Stock Exchange composite tapes for the applicable periods.

| Year | Quarter | Range | |
|------|---------|----------|---------|
| | | High | Low |
| 2011 | 1st | \$113.36 | \$99.96 |
| | 2nd | 120.00 | 107.21 |
| | 3rd | 124.81 | 101.77 |
| | 4th | 136.67 | 103.42 |
| 2012 | 1st | 141.48 | 129.04 |
| | 2nd | 146.49 | 129.77 |
| | 3rd | 152.68 | 137.86 |
| | 4th | 148.17 | 135.07 |

As of February 15, 2013, there were approximately 16,971 holders of record of our Common Shares. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

b. Dividends

We have paid quarterly distributions to our shareholders since 1981, our first full year of operations. During 2012 we paid distributions to our common shareholders of \$1.10 per common share for each of the quarters ended March 31, June 30, September 30 and December 31, representing an aggregate of \$751.2 million or \$4.40 per share. During 2011 we paid distributions to our common shareholders of \$0.80 per common share for the quarter ended March 31 and \$0.95 per common share for each of the quarters ended June 30, September 30 and December 31, representing an aggregate of \$619.7 million or \$3.65 per share. During 2010 we paid distributions to our common shareholders of \$0.65 per common share for the quarter ended March 31 and \$0.80 per common share for each of the quarters ended June 30, September 30 and December 31, representing an aggregate of \$515.3 million or \$3.05 per share.

Holders of common shares are entitled to receive distributions when and if declared by our Board of Trustees out of any funds legally available for that purpose. As a REIT, we do not incur federal income tax on our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we have met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

For Federal income tax purposes, distributions to shareholders are treated as ordinary income, capital gains, return of capital or a combination thereof. For 2012, the dividends paid on common shares (\$4.40 per share) and on all the various classes of preferred shares were classified as follows:

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| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|------------------------|----------------|----------------|----------------|----------------|
| Ordinary Income | 100.0000 % | 100.0000 % | 100.0000 % | 100.0000 % |
| Long-term Capital Gain | 0.0000 % | 0.0000 % | 0.0000 % | 0.0000 % |
| Total | 100.0000 % | 100.0000 % | 100.0000 % | 100.0000 % |

For 2011, the dividends paid on common shares (\$3.65 per share) and on all the various classes of preferred shares were classified as follows:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|------------------------|----------------|----------------|----------------|----------------|
| Ordinary Income | 99.9406 % | 100.0000 % | 100.0000 % | 96.6553 % |
| Long-term Capital Gain | 0.0594 % | 0.0000 % | 0.0000 % | 3.3447 % |
| Total | 100.0000 % | 100.0000 % | 100.0000 % | 100.0000 % |

c. Equity Shares

We are authorized to issue 100,000,000 equity shares from time to time in one or more series and our Board of Trustees has broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of equity shares.

At December 31, 2009, we had 8,377,193 Equity Shares, Series A outstanding, and on April 15, 2010 we redeemed all these shares at \$24.50 per share for an aggregate redemption amount of \$205.4 million. During the three months ended March 31, 2010, we paid quarterly distributions to the holders of the Equity Shares, Series A totaling \$5.1 million (\$0.6125 per share). No further distributions on Equity Shares, Series A were paid after their April 15, 2010 retirement.

At December 31, 2009, we had 4,289,544 Equity Shares, Series AAA (“Equity AAA Shares”) outstanding with a carrying value of \$100,000,000, all of which were held by a wholly-owned subsidiary and eliminated in consolidation, and we retired all of these shares on August 31, 2010. For each of the quarters ended March 31, 2010 and June 30, 2010, we paid aggregate distributions to the holder of the Equity AAA Shares totaling \$2.3 million or \$0.5391 per share. No further distributions were paid on the Equity AAA Shares after their August 31, 2010 retirement.

d. Common Share Repurchases

Our Board of Trustees has authorized the repurchase from time to time (with no expiration date) of up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through February 25, 2013, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately \$679.1 million, and 11,278,084 common shares remain available to purchase under the authorization. Future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

e. Preferred Share Redemptions

In addition to the redemption price of \$25.00 per share for all Cumulative Preferred Shares that we redeemed during 2012, we also paid accrued and unpaid dividends for such shares up to their respective redemption dates. The following table presents monthly information related to our redemptions of our Preferred Shares during the year ended December 31, 2012:

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| Period Covered | Total Number of Shares Repurchased | Average Price Paid per Share |
|--|---|---------------------------------------|
| January 1, 2012 – January 31, 2012 | - | - |
| February 1, 2012 – February 28, 2012 | | |
| Preferred Shares – Series L | 8,266,600 | \$25.00 |
| Preferred Shares – Series E | 5,650,000 | \$25.00 |
| March 1, 2012 – March 31, 2012 | | |
| Preferred Shares – Series Y | 350,900 | \$25.00 |
| April 1, 2012 – April 30, 2012 | | |
| Preferred Shares – Series M | 19,065,353 | \$25.00 |
| May 1, 2012 – May 31, 2012 | - | - |
| June 1, 2012 – June 30, 2012 | - | - |
| July 1, 2012 – July 31, 2012 | | |
| Preferred Shares – Series N | 6,900,000 | \$25.00 |
| Preferred Shares – Series C | 4,425,000 | \$25.00 |
| August 1, 2012 – August 31, 2012 | | |
| Preferred Shares - Series W | 5,300,000 | \$25.00 |
| September 1, 2012 – September 30, 2012 | - | - |
| October 1, 2012 – October 31, 2012 | | |
| Preferred Shares - Series F | 9,893,000 | \$25.00 |
| Preferred Shares - Series X | 4,800,000 | \$25.00 |
| November 1, 2012 – November 30, 2012 | - | - |
| December 1, 2012 – December 31, 2012 | | |
| Preferred Shares - Series Z | 4,500,000 | \$25.00 |
| Preferred Shares - Series A | 4,600,000 | \$25.00 |
| Preferred Shares - Series D | 5,400,000 | \$25.00 |
| Total | 79,150,853 | \$25.00 |

ITEM 6. Selected Financial Data

| | For the year ended December 31, | | | | |
|--|---|---------------|---------------|--------------|--------------|
| | 2012 | 2011 | 2010 | 2009 (1) | 2008 |
| | (Amounts in thousands, except per share data) | | | | |
| Operating Revenues | \$1,826,729 | \$1,717,613 | \$1,613,777 | \$1,590,929 | \$1,680,198 |
| Operating Expenses: | | | | | |
| Cost of operations | 540,129 | 542,234 | 528,404 | 520,089 | 552,667 |
| Depreciation and amortization | 357,781 | 357,969 | 353,245 | 339,003 | 407,422 |
| General and administrative | 56,837 | 52,410 | 38,487 | 35,735 | 62,809 |
| Asset impairment charges | - | 2,186 | 994 | - | 525 |
| | 954,747 | 954,799 | 921,130 | 894,827 | 1,023,423 |
| Operating income | 871,982 | 762,814 | 692,647 | 696,102 | 656,775 |
| Interest and other income | 22,074 | 32,333 | 29,017 | 29,813 | 36,155 |
| Interest expense | (19,813) | (24,222) | (30,225) | (29,916) | (43,944) |
| Equity in earnings of unconsolidated real estate entities | 45,586 | 58,704 | 38,352 | 53,244 | 20,391 |
| Foreign currency exchange gain (loss) | 8,876 | (7,287) | (42,264) | 9,662 | (25,362) |
| Gain on real estate sales and debt retirement | 1,456 | 10,801 | 827 | 37,540 | 336,545 |
| Income from continuing operations | 930,161 | 833,143 | 688,354 | 796,445 | 980,560 |
| Discontinued operations | 12,874 | 3,316 | 7,760 | (5,989) | (6,688) |
| Net income | 943,035 | 836,459 | 696,114 | 790,456 | 973,872 |
| Net income allocated (to) from noncontrolling equity interests | (3,777) | (12,617) | (24,076) | 44,165 | (38,696) |
| Net income allocable to Public Storage shareholders | \$939,258 | \$823,842 | \$672,038 | \$834,621 | \$935,176 |
| Per Common Share: | | | | | |
| Distributions | \$4.40 | \$3.65 | \$3.05 | \$2.20 | \$2.80 |
| Net income – Basic | \$3.93 | \$3.31 | \$2.36 | \$3.48 | \$4.19 |
| Net income – Diluted | \$3.90 | \$3.29 | \$2.35 | \$3.47 | \$4.18 |
| Weighted average common shares – Basic | 170,562 | 169,657 | 168,877 | 168,358 | 168,250 |
| Weighted average common shares – Diluted | 171,664 | 170,750 | 169,772 | 168,768 | 168,675 |
| Balance Sheet Data: | | | | | |
| Total assets | \$8,793,403 | \$8,932,562 | \$9,495,333 | \$9,805,645 | \$9,936,045 |
| Total debt | \$468,828 | \$398,314 | \$568,417 | \$518,889 | \$643,811 |
| Public Storage shareholders' equity | \$8,093,756 | \$8,288,209 | \$8,676,598 | \$8,928,407 | \$8,708,995 |
| Permanent noncontrolling interests' equity | \$29,108 | \$22,718 | \$32,336 | \$132,974 | \$358,109 |
| Net cash flow: | | | | | |
| Provided by operating activities | \$1,285,659 | \$1,203,452 | \$1,093,221 | \$1,112,857 | \$1,076,971 |
| Provided by (used in) investing activities | \$(290,465) | \$(81,355) | \$(266,605) | \$(91,409) | \$340,018 |
| Used in financing activities | \$(1,117,305) | \$(1,438,546) | \$(1,132,709) | \$(938,401) | \$(984,076) |

(1)

The 2009 decreases in our revenues, cost of operations, and depreciation and amortization, and our increase in equity in earnings of unconsolidated real estate entities, are due primarily to our disposition of a 51% interest in Shurgard Europe on March 31, 2008.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our financial statements and notes thereto.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") discusses our financial statements, which have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"). The amounts reported in our financial statements, notes to financial statements and MD&A are affected by judgments, assumptions and estimates that we make. The notes to our December 31, 2012 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 determination of fair values, all of which require significant judgment and subjectivity. Others could come to materially different conclusions, and we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in conclusions, could have a material adverse impact on our net income.

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

Accruals for Contingencies: We are subject to business and legal liability risks due to events that have occurred, which could result in future payments. We have not accrued certain of these payments, either because they are not probable or not estimable, or because we are not aware of them. We may have to accrue additional amounts for these payments due to the results of further investigation, the litigation process, or otherwise. Such accruals could have a material adverse impact on our net income.

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

Overview of Management's Discussion and Analysis of Operations

Our domestic self-storage facilities generated 93% of our revenues for the year ended December 31, 2012, and also generated most of our net income and cash flow from operations. A large portion of management time is devoted to maximizing cash flows from our existing self-storage facilities, as well as seeking to acquire and develop 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 effectively meet such challenges.

In 2010, 2011, and 2012, we acquired an aggregate of 77 self-storage facilities from third parties for approximately \$546 million, we acquired noncontrolling interests in subsidiaries owning self-storage facilities for approximately \$197 million, and we invested \$117 million in Shurgard Europe which it used to acquire interests in self-storage facilities. We will continue to seek to acquire additional self-storage facilities from third parties in 2013. There is significant competition to acquire existing facilities and there can be no assurance that we will be able to acquire additional facilities.

Over the past three years our development activities have been minimal. We have recently expanded our development efforts due in part to the significant increase in prices being paid for existing facilities, in many cases well above the cost of developing new facilities. At December 31, 2012, we had a development pipeline of projects to expand existing self-storage facilities and develop new self-storage facilities, which will add approximately 1.3 million net rentable square feet of self-storage space. The aggregate cost of these projects is estimated at \$169 million, of which \$36 million had been incurred at December 31, 2012, and the remaining costs will be incurred principally in 2013. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects and have hired additional personnel; however, due to the difficulty in finding projects that meet our risk-adjusted yield expectations, as well as the difficulty in obtaining building permits for self-storage activities in certain municipalities, it is uncertain as to how much additional development we will undertake in the future.

We also have equity investments in Shurgard Europe, interests in commercial operations primarily through our investment in PS Business Parks, Inc. ("PSB"), and ancillary operations such as tenant reinsurance and sales of merchandise. We have no current plans to change our equity investments in Shurgard Europe or PSB; however, it is possible that we may make additional investments in these entities in the future.

We believe that we are not dependent upon raising capital to fund our ongoing operations or meet our obligations. However, access to capital is important to growing our asset base. During the years ended December 31, 2012 and 2011, we issued approximately \$1.7 billion and \$863 million, respectively, of preferred securities. During December 2012, we raised \$101 million from the sale of our common shares owned by a wholly-owned subsidiary. We have no current plans to issue additional common shares. On January 16, 2013, we issued another

\$500 million of preferred securities.

At December 31, 2012, cash and cash equivalents totaled \$17.2 million and we had \$133.0 million in borrowings on our line of credit. On January 16, 2013, we raised \$485 million in net proceeds from the issuance of our 5.2% Series W Preferred Shares and repaid the outstanding borrowings on our line of credit. We have \$255 million in scheduled principal repayments in 2013, including \$186 million for our senior notes which mature on March 15, 2013. At December 31, 2012, we have a pipeline of development projects with approximately \$133 million in remaining spending. We have no other significant commitments in 2013.

Results of Operations

Operating results for 2012 as compared to 2011: For the year ended December 31, 2012, net income allocable to our common shareholders was \$669.7 million or \$3.90 per diluted common share, compared to \$561.7 million or \$3.29 per diluted common share for the same period in 2011, representing an increase of \$108.0 million or \$0.61 per diluted common share. This increase is due to (i) improved property operations, (ii) a \$19.6 million reduction in distributions to preferred shareholders due primarily to lower average coupon rates, and (iii) a \$16.2 million increase resulting from foreign currency exchange gains and losses in translating our Euro-denominated loan receivable from Shurgard Europe into U.S. Dollars, offset partially by (iv) a \$36.3 million decrease due to the application of EITF D-42 to our, and our equity share of PSB's, redemptions of preferred securities.

Operating results for 2011 as compared to 2010: For the year ended December 31, 2011, net income allocable to our common shareholders was \$561.7 million or \$3.29 per diluted common share, compared to \$399.2 million or \$2.35 per diluted common share for the same period in 2010, representing an increase of \$162.5 million or \$0.94 per diluted common share. This increase is due to (i) improved property operations, (ii), a \$35.0 million increase due to foreign currency exchange gains and losses in translating our Euro-denominated loan receivable from Shurgard Europe into U.S. Dollars, (iii) increased equity in earnings and interest and other income from Shurgard Europe, due primarily to Shurgard Europe's acquisition of its joint venture partner's interests on March 2, 2011 and (iv) reduced income allocations to our Equity Shares, Series A.

Funds from Operations

Funds from Operations ("FFO") is a term defined by the National Association of Real Estate Investment Trusts, and generally represents net income before depreciation, gains and losses, and impairment charges with respect to real estate assets. We present FFO and FFO per share because we consider FFO to be an important measure of the performance of real estate companies, as do many analysts in evaluating our Company. We believe that FFO is a helpful measure of a REIT's performance since FFO excludes depreciation, which is included in computing net income and assumes the value of real estate diminishes predictably over time. We believe that real estate values fluctuate due to market conditions and in response to inflation. FFO computations do not consider scheduled principal payments on debt, capital improvements, distributions and other obligations of the Company. FFO and FFO per share is not a substitute for our cash flow or net income per share as a measure of our liquidity or operating performance or our ability to pay dividends. Because other REITs may not compute FFO in the same manner; FFO may not be comparable among REITs. The following table reconciles from net income to FFO allocable to common shares and computes FFO per common share. Amounts previously presented for 2010 have been adjusted to eliminate impairment charges with respect to real estate assets.

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| | Year Ended December 31, | | |
|---|---|------------|------------|
| | 2012 | 2011 | 2010 |
| | (Amounts in thousands, except per share data) | | |
| Computation of FFO allocable to Common Shares: | | | |
| Net | | | |
| income | \$943,035 | \$836,459 | \$696,114 |
| Add back – depreciation and amortization, including amounts classified as discontinued operations | 358,103 | 358,525 | 354,386 |
| Add back – depreciation from unconsolidated real estate investments | 75,648 | 64,677 | 61,110 |
| Eliminate – gains on sale and impairment charges related to real estate investments, including discontinued operations and our equity share of unconsolidated real estate investments | (14,778) | (12,797) | (7,573) |
| FFO allocable to equity holders | 1,362,008 | 1,246,864 | 1,104,037 |
| Less allocation of FFO to: | | | |
| Noncontrolling equity interests | (6,828) | (15,539) | (25,915) |
| Preferred shareholders | (266,937) | (260,462) | (240,634) |
| Equity Shares, Series A | - | - | (30,877) |
| Restricted share unitholders | (4,247) | (2,817) | (2,645) |
| FFO allocable to Common Shares | \$1,083,996 | \$968,046 | \$803,966 |
| Diluted weighted average common shares outstanding | 171,664 | 170,750 | 169,772 |
| FFO per share | \$6.31 | \$5.67 | \$4.74 |

In discussions with the investment community, we often discuss “Core FFO” per share, which represents FFO per share, adjusted to exclude the impact of i) foreign currency gains and losses, representing a gain of \$8.9 million in 2012, and losses totaling \$7.3 million and \$42.3 million in 2011 and 2010, respectively, ii) EITF D-42 income allocations, including our equity share of PSB, representing a reduction of FFO totaling \$68.9 million, \$32.6 million and \$35.8 million in 2012, 2011 and 2010, respectively, and ii) the aggregate net impact of impairment charges with respect to non-real estate assets, contingency accruals, our equity share of PSB’s lease termination benefits, and costs associated with the acquisition of real estate facilities, representing an aggregate net reduction in FFO per share of \$0.02, \$0.03 and \$0.02 in 2012, 2011 and 2010, respectively.

We present Core FFO per share because we believe it is a helpful measure in understanding our results of operations, as we believe that the items noted above that are included in FFO per share, but excluded from Core FFO per share, are not indicative of our ongoing earnings. We also believe that the analyst community, likewise, reviews our Core FFO (or similar measures using different terminology) when evaluating our Company. Core FFO is not a substitute for net income, earnings per share or cash flow from operations. Because other REITs may not compute Core FFO in the same manner as we do, may not use the same terminology, or may not present such a measure, Core FFO may not be comparable among REITs.

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

Year Ended December 31,

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| | 2012 | 2011 | Percentage Change | 2011 | 2010 | Percentage Change | |
|--|---------|--------|----------------------|----------|--------|----------------------|---|
| FFO per share | \$6.31 | \$5.67 | 11.3 | % \$5.67 | \$4.74 | 19.6 | % |
| Eliminate the per share impact of items excluded from Core FFO: | | | | | | | |
| Foreign currency exchange (gain) loss | (0.05) | 0.04 | | 0.04 | 0.25 | | |
| Application of EITF D-42 | 0.40 | 0.19 | | 0.19 | 0.21 | | |
| Other items, net | 0.02 | 0.03 | | 0.03 | 0.02 | | |
| Core FFO per share | \$6.68 | \$5.93 | 12.6 | % \$5.93 | \$5.22 | 13.6 | % |

Real Estate Operations

Self-Storage Operations: Our self-storage operations represent 93% of our revenues for the year ended December 31, 2012. 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, 2010, and (ii) all other facilities, which are newly acquired, newly developed, or recently expanded facilities (the “Non Same Store Facilities”).

| Self-Storage Operations Summary | Year Ended December 31, | | | Year Ended December 31, | | |
|---|-------------------------------|--------------|----------------------|-------------------------|--------------|----------------------|
| | 2012 | 2011 | Percentage Change | 2011 | 2010 | Percentage Change |
| | (Dollar amounts in thousands) | | | | | |
| Revenues: | | | | | | |
| Same Store Facilities | \$ 1,596,320 | \$ 1,522,055 | 4.9 % | \$ 1,522,055 | \$ 1,454,633 | 4.6 % |
| Non Same Store Facilities | 106,770 | 81,469 | 31.1 % | 81,469 | 54,763 | 48.8 % |
| Total rental income | 1,703,090 | 1,603,524 | 6.2 % | 1,603,524 | 1,509,396 | 6.2 % |
| Cost of operations: | | | | | | |
| Same Store Facilities | 468,752 | 477,041 | (1.7)% | 477,041 | 474,831 | 0.5 % |
| Non Same Store Facilities | 33,114 | 27,797 | 19.1 % | 27,797 | 19,884 | 39.8 % |
| Total cost of operations | 501,866 | 504,838 | (0.6)% | 504,838 | 494,715 | 2.0 % |
| Net operating income (a): | | | | | | |
| Same Store Facilities | 1,127,568 | 1,045,014 | 7.9 % | 1,045,014 | 979,802 | 6.7 % |
| Non Same Store Facilities | 73,656 | 53,672 | 37.2 % | 53,672 | 34,879 | 53.9 % |
| Total net operating income | 1,201,224 | 1,098,686 | 9.3 % | 1,098,686 | 1,014,681 | 8.3 % |
| Total depreciation and amortization expense: | | | | | | |
| Same Store Facilities | (313,173) | (319,033) | (1.8)% | (319,033) | (316,199) | 0.9 % |
| Non Same Store Facilities | (41,798) | (36,282) | 15.2 % | (36,282) | (34,426) | 5.4 % |
| Total depreciation and amortization expense | (354,971) | (355,315) | (0.1)% | (355,315) | (350,625) | 1.3 % |
| Total net income | \$ 846,253 | \$ 743,371 | 13.8 % | \$ 743,371 | \$ 664,056 | 11.9 % |
| Number of facilities at period end: | | | | | | |
| Same Store Facilities | 1,941 | 1,941 | - | 1,941 | 1,941 | - |
| Non Same Store Facilities | 124 | 97 | 27.8 % | 97 | 83 | 16.9 % |
| Net rentable square footage at period end (in thousands): | | | | | | |
| Same Store Facilities | 122,464 | 122,464 | - | 122,464 | 122,464 | - |
| Non Same Store Facilities | 9,173 | 6,997 | 31.1 % | 6,997 | 5,684 | 23.1 % |

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

Same Store Facilities

The Same Store Facilities represent those 1,941 facilities (122,464,000 net rentable square feet) that have been owned and operated on a stabilized basis since January 1, 2010, and therefore provide meaningful comparisons for 2010, 2011 and 2012. The following table summarizes the historical operating results of these facilities:

| SAME STORE FACILITIES | Year Ended December 31, | | | Year Ended December 31, | | |
|---|-------------------------|-------------|-------------------|-------------------------|-------------|-------------------|
| | 2012 | 2011 | Percentage Change | 2011 | 2010 | Percentage Change |
| (Dollar amounts in thousands, except weighted average amounts) | | | | | | |
| Revenues: | | | | | | |
| Rental income | \$1,516,152 | \$1,442,684 | 5.1 % | \$1,442,684 | \$1,383,232 | 4.3 % |
| Late charges and administrative fees | 80,168 | 79,371 | 1.0 % | 79,371 | 71,401 | 11.2 % |
| Total revenues (a) | 1,596,320 | 1,522,055 | 4.9 % | 1,522,055 | 1,454,633 | 4.6 % |
| Cost of operations: | | | | | | |
| Property taxes | 151,605 | 147,259 | 3.0 % | 147,259 | 144,502 | 1.9 % |
| On-site property manager payroll | 97,942 | 101,034 | (3.1)% | 101,034 | 99,928 | 1.1 % |
| Repairs and maintenance | 39,998 | 45,237 | (11.6)% | 45,237 | 46,201 | (2.1)% |
| Utilities | 36,255 | 37,732 | (3.9)% | 37,732 | 36,299 | 3.9 % |
| Media advertising | 6,326 | 10,542 | (40.0)% | 10,542 | 15,178 | (30.5)% |
| Other advertising and selling expense | 32,423 | 32,133 | 0.9 % | 32,133 | 31,991 | 0.4 % |
| Other direct property costs | 35,257 | 35,937 | (1.9)% | 35,937 | 36,810 | (2.4)% |
| Supervisory payroll | 33,144 | 32,038 | 3.5 % | 32,038 | 29,828 | 7.4 % |
| Allocated overhead | 35,802 | 35,129 | 1.9 % | 35,129 | 34,094 | 3.0 % |
| Total cost of operations (a) | 468,752 | 477,041 | (1.7)% | 477,041 | 474,831 | 0.5 % |
| Net operating income (b) | 1,127,568 | 1,045,014 | 7.9 % | 1,045,014 | 979,802 | 6.7 % |
| Depreciation and amortization expense | (313,173) | (319,033) | (1.8)% | (319,033) | (316,199) | 0.9 % |
| Net income | \$814,395 | \$725,981 | 12.2 % | \$725,981 | \$663,603 | 9.4 % |
| Gross margin (before depreciation and amortization expense) | 70.6 % | 68.7 % | 2.8 % | 68.7 % | 67.4 % | 1.9 % |
| Weighted average for the period: | | | | | | |
| Square foot occupancy (c) | 91.8 % | 91.2 % | 0.7 % | 91.2 % | 89.8 % | 1.6 % |
| Realized annual rent, prior to late charges and administrative fees, per: | | | | | | |
| Occupied square foot (d)(e) | \$13.49 | \$12.92 | 4.4 % | \$12.92 | \$12.58 | 2.7 % |
| Available square foot ("REVPAF") (e)(f) | \$12.38 | \$11.78 | 5.1 % | \$11.78 | \$11.30 | 4.2 % |
| Weighted average at December 31: | | | | | | |
| Square foot occupancy | 91.4 % | 89.6 % | 2.0 % | 89.6 % | 88.7 % | 1.0 % |
| In place annual rent per occupied square foot (g) | \$14.42 | \$14.02 | 2.9 % | \$14.02 | \$13.65 | 2.7 % |

a) Revenues and cost of operations do not include tenant reinsurance and retail operations, which are included on our income statement under "ancillary revenues" and "ancillary operating expenses."

- b) See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our net income in our statements of income for the years ended December 31, 2012, 2011 and 2010.
 - c) Square foot occupancies represent weighted average occupancy levels over the entire period.
- d) Realized annual rent per occupied square foot is computed by dividing annualized rental income, before late charges and administrative fees, by the weighted average occupied square feet for the period.
- e) 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.

- f) 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.
- g) In place annual rent per occupied square foot represents annualized contractual rents per occupied square foot before any reductions for promotional discounts, and excludes late charges and administrative fees.

Analysis of Revenue

Revenues generated by our Same Store Facilities increased by 4.9% in 2012 as compared to 2011 due primarily to increased average rental rates charged to our tenants. This increase was due primarily to annual rent increases for tenants that have been renting longer than one year combined with a reduction in promotional discounts given to new tenants from \$96.5 million in 2011 to \$87.8 million in 2012.

Revenues generated by our Same Store Facilities increased by 4.6% in 2011 as compared to 2010. The increase was due primarily to a 1.6% increase in weighted average square foot occupancy and a 2.7% increase in realized rent per occupied square foot, as well as an 11.2% increase in late charges and administrative fees due primarily to increases in the fee levels charged for late payments. The increase in realized annual rent per occupied square foot includes the impact of more aggressive increases in rents charged to existing tenants in the last two quarters of 2011.

Our future rental growth will be dependent upon many factors including the level of new supply of self-storage space in the markets in which we operate, demand for self-storage space, our ability to increase rental rates, the level of promotional activities, and our ability to maintain or improve our occupancy levels.

We seek to maintain an average occupancy level of at least 90% throughout the year, which we believe maximizes the realized rent per available foot. We maintain occupancy by regularly adjusting rental rates and promotions offered, in order to generate sufficient move-ins to replace tenants that vacate. Demand fluctuates due to various local and regional factors, including the overall economy. Demand is higher in the summer months than in the winter months and, as a result, rental rates charged to new tenants are typically higher in the summer months than in the winter months.

Our Same Store average occupancy levels increased 0.7% in 2012 as compared to 2011, due primarily to a 1.8% increase in average occupancy in the fourth quarter of 2012 as compared to the same period in 2011. This increase was driven by (i) increased move-in volumes, primarily due to more aggressive pricing in the seasonally slow fourth quarter of 2012 combined with (ii) reduced levels of tenants moving out, as compared to the same period in 2011. We expect to continue to implement aggressive pricing strategies during the first quarter of 2013 to increase occupancy levels as compared to the same period in 2012. However, we expect occupancy levels in the second, third and fourth quarters of 2013 to be flat as compared to the same periods in 2012 due to more difficult year-over-year comparisons.

Increasing rental rates to tenants having a tenancy longer than one year is a key part of our rental growth. At each of December 31, 2012, 2011 and 2010, approximately 55% of our tenants had a tenancy of a year or longer. For these tenants, in place rent per occupied square foot at December 31, 2012 increased 4.1% as compared to December 31, 2011 and 4.3% at December 30, 2011 as compared to December 31, 2010. These increases were due to rate increases passed to these tenants. We expect to pass similar rate increases to long-term tenants in 2013 as we did in 2012.

Based upon current trends, we expect positive year-over-year growth in rental income to continue throughout 2013, due to improved occupancy and realized rents during the first quarter of the year and primarily from increases in

realized rents during the remainder of 2013.

Analysis of Cost of Operations

Cost of operations (excluding depreciation and amortization) decreased 1.7% in 2012 as compared to 2011. The decrease was due primarily to reductions in on-site property manager payroll, repairs and maintenance, and media advertising, offset partially by a 3.0% increase in property tax expense. Cost of operations (excluding depreciation and amortization) increased by 0.5% in 2011 as compared to 2010. The increase was due to higher property taxes, supervisory payroll, and utilities, partially offset by reduced media advertising.

Property tax expense increased 3.0% in 2012 as compared to 2011, due primarily to higher assessed values. Property tax expense increased 1.9% in 2011 as compared to 2010, due primarily to higher tax rates. We expect property tax expense growth of approximately 4.0% in 2013, due primarily to higher assessed values.

On-site property manager payroll expense decreased approximately 3.1% in 2012 as compared to 2011, and increased 1.1% in 2011 as compared to 2010. The decrease in 2012 was due primarily to lower incentive compensation, and the increase in 2011 was due primarily to higher incentive compensation and wage rates. We expect payroll expense to increase at a rate less than inflation in 2013.

Repairs and maintenance expenditures decreased 11.6% in 2012 as compared to the same period in 2011, and decreased 2.1% in 2011 as compared to the same period in 2010. Repairs and maintenance expenditures are dependent upon several factors, such as weather, the timing of repair and maintenance needs, inflation in material and labor costs, and random events. Included in our repairs and maintenance expenditures in 2012, 2011 and 2010 was approximately \$2.7 million, \$4.3 million and \$6.1 million, respectively, in snow removal costs. We expect repairs and maintenance, prior to snow removal costs, to decline modestly in 2013. Snow removal costs are expected to be higher in the first quarter of 2013 as compared to the same period in 2012, due to more severe winter weather through February 25, 2013. Snow removal costs after the first quarter of 2013 are not determinable at this time.

Utility expenses decreased 3.9% in 2012 as compared to 2011, and increased 3.9% in 2011 as compared to 2010. Utility cost levels are dependent upon changes in usage driven primarily by weather and temperature, as well as energy prices. The decrease in 2012 was driven by reduced usage caused by milder weather. The increase in 2011 was caused by higher usage from extreme temperatures, as well as higher energy prices. It is difficult to estimate future utility cost levels, because weather, temperature, and fuel prices are volatile and not predictable.

Media advertising decreased 40.0% in 2012 as compared to the same period in 2011, and decreased 30.5% in 2011 as compared to 2010. Media advertising can increase or decrease significantly in the short-term in response to demand, occupancy levels, and other factors. Media advertising expenditures have declined due to higher square foot occupancies, which increased from 87.0% on December 31, 2009 to 91.4% at December 31, 2012. We expect lower media advertising in 2013 due to current high occupancies.

Other advertising and selling expense is comprised principally of yellow page, internet advertising, and the operating costs of our telephone reservation center. These costs in aggregate have remained flat in 2010, 2011 and 2012. We have phased out our yellow page advertising program as of December 31, 2012, and expect that this cost reduction will be offset by increased Internet advertising. We expect other advertising and selling expense to be flat 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, and the cost of operating each property's rental office including supplies and telephone data communication lines. Due to cost-saving measures in certain expense categories, offset by inflationary increases, we expect other direct property expenses to be flat in 2013.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 3.5% in 2012 as compared to 2011, and increased 7.4% in 2011 as compared to 2010. The increase in 2012 was due principally to increased headcount. This increase in 2011 was due primarily to higher incentives and wage rates paid to supervisory personnel. We expect growth in supervisory payroll in excess of inflation, due to higher wage rates, incentives and increased headcount.

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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). The increases in 2012 and 2011 are due principally to increased headcount. We expect inflationary growth in allocated overhead in 2013.

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

| | For the Quarter Ended | | | | Entire Year |
|---|--|-----------|--------------|-------------|-------------|
| | March 31 | June 30 | September 30 | December 31 | |
| | (Amounts in thousands, except for per square foot amount) | | | | |
| Total revenues: | | | | | |
| 2012 | \$383,928 | \$394,700 | \$412,641 | \$405,051 | \$1,596,320 |
| 2011 | \$366,497 | \$375,543 | \$393,819 | \$386,196 | \$1,522,055 |
| 2010 | \$353,976 | \$360,915 | \$372,125 | \$367,617 | \$1,454,633 |
| Total cost of operations: | | | | | |
| 2012 | \$130,682 | \$121,043 | \$118,566 | \$98,461 | \$468,752 |
| 2011 | \$128,295 | \$122,776 | \$121,338 | \$104,632 | \$477,041 |
| 2010 | \$128,363 | \$122,954 | \$121,127 | \$102,387 | \$474,831 |
| Property taxes: | | | | | |
| 2012 | \$43,058 | \$41,925 | \$40,580 | \$26,042 | \$151,605 |
| 2011 | \$41,382 | \$40,264 | \$39,550 | \$26,063 | \$147,259 |
| 2010 | \$40,420 | \$39,246 | \$39,187 | \$25,649 | \$144,502 |
| Repairs and maintenance: | | | | | |
| 2012 | \$12,025 | \$10,585 | \$8,487 | \$8,901 | \$39,998 |
| 2011 | \$10,765 | \$10,993 | \$10,960 | \$12,519 | \$45,237 |
| 2010 | \$13,089 | \$10,693 | \$10,829 | \$11,590 | \$46,201 |
| Media advertising: | | | | | |
| 2012 | \$3,145 | \$1,891 | \$1,239 | \$51 | \$6,326 |
| 2011 | \$4,046 | \$3,360 | \$2,144 | \$992 | \$10,542 |
| 2010 | \$5,456 | \$6,603 | \$3,119 | \$- | \$15,178 |
| REVPAF: | | | | | |
| 2012 | \$11.89 | \$12.25 | \$12.79 | \$12.59 | \$12.38 |
| 2011 | \$11.36 | \$11.64 | \$12.16 | \$11.96 | \$11.78 |
| 2010 | \$11.01 | \$11.22 | \$11.54 | \$11.41 | \$11.30 |
| Weighted average realized annual rent per occupied square foot: | | | | | |
| 2012 | \$13.17 | \$13.23 | \$13.79 | \$13.72 | \$13.49 |
| 2011 | \$12.65 | \$12.61 | \$13.19 | \$13.26 | \$12.92 |
| 2010 | \$12.47 | \$12.34 | \$12.68 | \$12.82 | \$12.58 |

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Weighted average occupancy levels for the period:

| | | | | | | | | | | |
|------|------|---|------|---|------|---|------|---|------|---|
| 2012 | 90.3 | % | 92.6 | % | 92.7 | % | 91.8 | % | 91.8 | % |
| 2011 | 89.8 | % | 92.3 | % | 92.2 | % | 90.2 | % | 91.2 | % |
| 2010 | 88.3 | % | 90.9 | % | 91.0 | % | 89.0 | % | 89.8 | % |

Analysis of Market Trends

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

| | Year Ended December 31, | | | Year Ended December 31, | | |
|--|-------------------------|-------------|--------|-------------------------|-------------|--------|
| | 2012 | 2011 | Change | 2011 | 2010 | Change |
| (Amounts in thousands, except for weighted average data) | | | | | | |
| Same Store Facilities Operating Trends | | | | | | |
| by Market | | | | | | |
| Revenues: | | | | | | |
| Los Angeles (168 facilities) | \$210,653 | \$201,945 | 4.3 % | \$201,945 | \$197,432 | 2.3 % |
| San Francisco (125 facilities) | 134,109 | 126,852 | 5.7 % | 126,852 | 121,242 | 4.6 % |
| New York (79 facilities) | 105,421 | 100,256 | 5.2 % | 100,256 | 94,342 | 6.3 % |
| Chicago (124 facilities) | 99,699 | 95,346 | 4.6 % | 95,346 | 92,431 | 3.2 % |
| Washington DC (72 facilities) | 78,606 | 75,898 | 3.6 % | 75,898 | 71,321 | 6.4 % |
| Seattle-Tacoma (85 facilities) | 76,506 | 73,263 | 4.4 % | 73,263 | 70,380 | 4.1 % |
| Miami (60 facilities) | 67,468 | 63,568 | 6.1 % | 63,568 | 60,930 | 4.3 % |
| Dallas-Ft. Worth (98 facilities) | 62,346 | 59,062 | 5.6 % | 59,062 | 55,257 | 6.9 % |
| Houston (80 facilities) | 57,054 | 53,943 | 5.8 % | 53,943 | 52,437 | 2.9 % |
| Atlanta (89 facilities) | 56,878 | 54,426 | 4.5 % | 54,426 | 51,786 | 5.1 % |
| Philadelphia (55 facilities) | 43,128 | 41,725 | 3.4 % | 41,725 | 39,389 | 5.9 % |
| Denver (47 facilities) | 36,596 | 33,749 | 8.4 % | 33,749 | 32,098 | 5.1 % |
| Minneapolis-St. Paul (41 facilities) | 31,073 | 29,467 | 5.5 % | 29,467 | 27,783 | 6.1 % |
| Portland (42 facilities) | 28,817 | 27,451 | 5.0 % | 27,451 | 26,235 | 4.6 % |
| Orlando-Daytona (45 facilities) | 27,805 | 26,711 | 4.1 % | 26,711 | 25,545 | 4.6 % |
| All other markets (731 facilities) | 480,161 | 458,393 | 4.7 % | 458,393 | 436,025 | 5.1 % |
| Total revenues | \$1,596,320 | \$1,522,055 | 4.9 % | \$1,522,055 | \$1,454,633 | 4.6 % |
| Net operating income: | | | | | | |
| Los Angeles | \$166,158 | \$156,408 | 6.2 % | \$156,408 | \$152,334 | 2.7 % |
| San Francisco | 103,480 | 96,330 | 7.4 % | 96,330 | 90,692 | 6.2 % |
| New York | 71,470 | 67,304 | 6.2 % | 67,304 | 59,352 | 13.4 % |
| Chicago | 59,511 | 52,494 | 13.4 % | 52,494 | 52,134 | 0.7 % |
| Washington DC | 59,901 | 56,862 | 5.3 % | 56,862 | 52,038 | 9.3 % |
| Seattle-Tacoma | 57,092 | 54,244 | 5.3 % | 54,244 | 51,758 | 4.8 % |
| Miami | 49,508 | 45,729 | 8.3 % | 45,729 | 42,238 | 8.3 % |
| Dallas-Ft. Worth | 41,072 | 36,879 | 11.4 % | 36,879 | 33,108 | 11.4 % |
| Houston | 37,367 | 34,734 | 7.6 % | 34,734 | 33,216 | 4.6 % |
| Atlanta | 39,055 | 36,009 | 8.5 % | 36,009 | 33,731 | 6.8 % |
| Philadelphia | 28,775 | 26,732 | 7.6 % | 26,732 | 24,209 | 10.4 % |
| Denver | 25,769 | 22,521 | 14.4 % | 22,521 | 21,032 | 7.1 % |
| Minneapolis-St. Paul | 19,920 | 18,309 | 8.8 % | 18,309 | 16,427 | 11.5 % |

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| | | | | | | |
|----------------------------|-------------|-------------|-------|-------------|-----------|-------|
| Portland | 21,028 | 19,301 | 8.9 % | 19,301 | 18,463 | 4.5 % |
| Orlando-Daytona | 18,980 | 17,455 | 8.7 % | 17,455 | 16,429 | 6.2 % |
| All other markets | 328,482 | 303,703 | 8.2 % | 303,703 | 282,641 | 7.5 % |
| Total net operating income | \$1,127,568 | \$1,045,014 | 7.9 % | \$1,045,014 | \$979,802 | 6.7 % |

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| Same Store Facilities Operating Trends by Region (Continued) | Year Ended December | | | Year Ended December | | |
|---|--|-------------|--------|---------------------|-------------|--------|
| | 2012 | 31, 2011 | Change | 2011 | 31, 2010 | Change |
| | (Amounts in thousands, except for weighted average data) | | | | | |
| Weighted average occupancy: | | | | | | |
| Los Angeles | 92.6 % | 92.1 % | 0.5 % | 92.1 % | 91.3 % | 0.9 % |
| San Francisco | 93.2 % | 93.0 % | 0.2 % | 93.0 % | 91.5 % | 1.6 % |
| New York | 92.9 % | 92.5 % | 0.4 % | 92.5 % | 91.7 % | 0.9 % |
| Chicago | 92.1 % | 91.0 % | 1.2 % | 91.0 % | 89.3 % | 1.9 % |
| Washington DC | 91.9 % | 92.3 % | -0.4 % | 92.3 % | 91.3 % | 1.1 % |
| Seattle-Tacoma | 91.0 % | 90.7 % | 0.3 % | 90.7 % | 90.0 % | 0.8 % |
| Miami | 92.6 % | 92.0 % | 0.7 % | 92.0 % | 91.0 % | 1.1 % |
| Dallas-Ft. Worth | 91.7 % | 91.5 % | 0.2 % | 91.5 % | 89.4 % | 2.3 % |
| Houston | 91.8 % | 89.8 % | 2.2 % | 89.8 % | 88.9 % | 1.0 % |
| Atlanta | 90.4 % | 90.3 % | 0.1 % | 90.3 % | 88.4 % | 2.1 % |
| Philadelphia | 91.3 % | 91.7 % | -0.4 % | 91.7 % | 90.3 % | 1.6 % |
| Denver | 94.0 % | 91.8 % | 2.4 % | 91.8 % | 90.5 % | 1.4 % |
| Minneapolis-St. Paul | 91.6 % | 90.5 % | 1.2 % | 90.5 % | 88.4 % | 2.4 % |
| Portland | 92.7 % | 91.4 % | 1.4 % | 91.4 % | 89.8 % | 1.8 % |
| Orlando-Daytona | 91.9 % | 90.1 % | 2.0 % | 90.1 % | 88.5 % | 1.8 % |
| All other markets | 91.4 % | 90.6 % | 0.9 % | 90.6 % | 89.2 % | 1.6 % |
| Total weighted average occupancy | 91.8 % | 91.2 % | 0.7 % | 91.2 % | 89.8 % | 1.6 % |
| Realized annual rent per occupied square foot: | | | | | | |
| Los Angeles | \$19.19 | \$18.48 | 3.8 % | \$18.48 | \$18.18 | 1.7 % |
| San Francisco | 18.97 | 17.94 | 5.7 % | 17.94 | 17.43 | 2.9 % |
| New York | 20.75 | 19.73 | 5.2 % | 19.73 | 18.82 | 4.8 % |
| Chicago | 13.14 | 12.71 | 3.4 % | 12.71 | 12.62 | 0.7 % |
| Washington DC | 19.76 | 18.96 | 4.2 % | 18.96 | 18.07 | 4.9 % |
| Seattle-Tacoma | 14.40 | 13.77 | 4.6 % | 13.77 | 13.37 | 3.0 % |
| Miami | 16.00 | 15.12 | 5.8 % | 15.12 | 14.73 | 2.6 % |
| Dallas-Ft. Worth | 10.38 | 9.82 | 5.7 % | 9.82 | 9.48 | 3.6 % |
| Houston | 10.67 | 10.29 | 3.7 % | 10.29 | 10.16 | 1.3 % |
| Atlanta | 10.02 | 9.56 | 4.8 % | 9.56 | 9.35 | 2.2 % |
| Philadelphia | 13.11 | 12.60 | 4.0 % | 12.60 | 12.16 | 3.6 % |
| Denver | 12.23 | 11.53 | 6.1 % | 11.53 | 11.16 | 3.3 % |
| Minneapolis-St. Paul | 11.41 | 10.92 | 4.5 % | 10.92 | 10.61 | 2.9 % |
| Portland | 13.56 | 13.09 | 3.6 % | 13.09 | 12.78 | 2.4 % |
| Orlando-Daytona | 10.53 | 10.29 | 2.3 % | 10.29 | 10.09 | 2.0 % |
| All other markets | 11.00 | 10.57 | 4.0 % | 10.57 | 10.26 | 3.0 % |
| Total realized rent per square foot | \$13.49 | \$12.92 | 4.4 % | \$12.92 | \$12.58 | 2.7 % |
| REVPAF: | | | | | | |
| Los Angeles | \$17.77 | \$17.01 | 4.5 % | \$17.01 | \$16.60 | 2.5 % |
| San Francisco | 17.68 | 16.69 | 5.9 % | 16.69 | 15.95 | 4.6 % |

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| | | | | | | |
|-------------------------|---------|---------|-------|---------|---------|------|
| New York | 19.27 | 18.24 | 5.6 % | 18.24 | 17.26 | 5.7% |
| Chicago | 12.10 | 11.56 | 4.7 % | 11.56 | 11.27 | 2.6% |
| Washington DC | 18.15 | 17.50 | 3.7 % | 17.50 | 16.49 | 6.1% |
| Seattle-Tacoma | 13.10 | 12.49 | 4.9 % | 12.49 | 12.03 | 3.8% |
| Miami | 14.82 | 13.91 | 6.5 % | 13.91 | 13.40 | 3.8% |
| Dallas-Ft. Worth | 9.52 | 8.99 | 5.9 % | 8.99 | 8.47 | 6.1% |
| Houston | 9.79 | 9.24 | 6.0 % | 9.24 | 9.03 | 2.3% |
| Atlanta | 9.06 | 8.63 | 5.0 % | 8.63 | 8.26 | 4.5% |
| Philadelphia | 11.97 | 11.55 | 3.6 % | 11.55 | 10.98 | 5.2% |
| Denver | 11.50 | 10.58 | 8.7 % | 10.58 | 10.09 | 4.9% |
| Minneapolis-St. Paul | 10.46 | 9.89 | 5.8 % | 9.89 | 9.37 | 5.5% |
| Portland | 12.57 | 11.97 | 5.0 % | 11.97 | 11.48 | 4.3% |
| Orlando-Daytona | 9.67 | 9.28 | 4.2 % | 9.28 | 8.93 | 3.9% |
| All other markets | 10.05 | 9.58 | 4.9 % | 9.58 | 9.15 | 4.7% |
| Total REVPAF | \$12.38 | \$11.78 | 5.1 % | \$11.78 | \$11.30 | 4.2% |

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 December 31, 2012 represent 124 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2010, or were acquired since January 1, 2010. As a result of the stabilization process and timing of when the facilities were placed into service, year-over-year changes can be significant. In the following table, “Facilities placed into service in 2012” includes 24 facilities acquired from third parties and three facilities that we obtained control of and began consolidating in 2012. “Facilities placed into service in 2011” includes 11 facilities acquired from third parties, one facility that was newly developed, and two facilities that we obtained control of and began consolidating in 2011. “Other facilities” includes 42 facilities we acquired from third parties in 2010 and 41 other facilities that we have owned since January 1, 2010 that are not stabilized due to the addition of more net rentable square feet or due to casualty damage.

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

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| NON SAME STORE FACILITIES | Year Ended December 31, | | | Year Ended December 31, | | |
|---|-------------------------|----------|----------|-------------------------|----------|----------|
| | 2012 | 2011 | Change | 2011 | 2010 | Change |
| (Dollar amounts in thousands, except square foot amounts) | | | | | | |
| Rental income: | | | | | | |
| Facilities placed into service in 2012 | \$8,715 | \$- | \$8,715 | \$- | \$- | \$- |
| Facilities placed into service in 2011 | 13,302 | 5,914 | 7,388 | 5,914 | - | 5,914 |
| Other facilities | 84,753 | 75,555 | 9,198 | 75,555 | 54,763 | 20,792 |
| Total rental income | 106,770 | 81,469 | 25,301 | 81,469 | 54,763 | 26,706 |
| Cost of operations before depreciation and amortization expense: | | | | | | |
| Facilities placed into service in 2012 | \$3,446 | \$- | \$3,446 | \$- | \$- | \$- |
| Facilities placed into service in 2011 | 4,040 | 2,174 | 1,866 | 2,174 | - | 2,174 |
| Other facilities | 25,628 | 25,623 | 5 | 25,623 | 19,884 | 5,739 |
| Total cost of operations | 33,114 | 27,797 | 5,317 | 27,797 | 19,884 | 7,913 |
| Net operating income before depreciation and amortization expense (a): | | | | | | |
| Facilities placed into service in 2012 | \$5,269 | \$- | \$5,269 | \$- | \$- | \$- |
| Facilities placed into service in 2011 | 9,262 | 3,740 | 5,522 | 3,740 | - | 3,740 |
| Other facilities | 59,125 | 49,932 | 9,193 | 49,932 | 34,879 | 15,053 |
| Total net operating income (a) | 73,656 | 53,672 | 19,984 | 53,672 | 34,879 | 18,793 |
| Depreciation and amortization expense | (41,798) | (36,282) | (5,516) | (36,282) | (34,426) | (1,856) |
| Net income | \$31,858 | \$17,390 | \$14,468 | \$17,390 | \$453 | \$16,937 |
| At December 31: | | | | | | |
| Square foot occupancy: | | | | | | |
| Facilities placed into service in 2012 | 76.5 | % | - | % | - | % |
| Facilities placed into service in 2011 | 83.4 | % | 75.2 | % | 10.9 | % |
| Other facilities | 90.0 | % | 86.1 | % | 4.5 | % |
| | 86.1 | % | 84.3 | % | 2.1 | % |
| | | | | | 86.1 | % |
| | | | | | 78.2 | % |
| | | | | | 10.1 | % |
| | | | | | 10.7 | % |
| In place annual rent per occupied square foot: | | | | | | |
| Facilities placed into service in 2012 | \$13.31 | \$- | - | \$- | \$- | - |
| Facilities placed into service in 2011 | 15.07 | 14.29 | 5.5 | % | 14.29 | - |
| Other facilities | 16.31 | 15.61 | 4.5 | % | 15.61 | (1.0)% |
| | \$15.55 | \$15.41 | 0.9 | % | \$15.41 | (2.3)% |
| Number of Facilities: | | | | | | |
| Facilities placed into service in 2012 | 27 | - | 27 | - | - | - |
| Facilities placed into service in 2011 | 14 | 14 | - | 14 | - | 14 |
| Other facilities | 83 | 83 | - | 83 | 83 | - |
| | 124 | 97 | 27 | 97 | 83 | 14 |

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Net rentable square feet (in thousands):

| | | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| Facilities placed into service in 2012 | 2,091 | - | 2,091 | - | - | - |
| Facilities placed into service in 2011 | 1,166 | 1,166 | - | 1,166 | - | 1,166 |
| Other facilities | 5,916 | 5,831 | 85 | 5,831 | 5,684 | 147 |
| | 9,173 | 6,997 | 2,176 | 6,997 | 5,684 | 1,313 |

(a) See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our net income in our statements of income for the years ended December 31, 2012, 2011 and 2010.

In 2010, 2011, and 2012, we acquired an aggregate of 77 facilities from third parties. The following table sets forth selected information with respect to these acquired properties:

| | Number of Properties | Acquisition Cost (Dollar amounts in thousands) | For the Year Ended December 31, 2012 | | | |
|--|----------------------------|--|---|----------------|------|---|
| | | | Average Occupancy | Capitalization | | |
| | | | | Rate (a) | | |
| Properties acquired from third parties during: | | | | | | |
| Last three months of 2012 | 10 | \$ 81,400 | (b) | (b) | | |
| First nine months of 2012 | 14 | 144,100 | 78 | % | 5.3 | % |
| 2011 | 11 | 80,400 | 83 | % | 8.4 | % |
| 2010 | 42 | 239,600 | 89 | % | 10.2 | % |
| | 77 | \$ 545,500 | | | | |

(a) Weighted average capitalization rate represents the net operating income earned in 2012 divided by the acquisition cost. With respect to properties acquired in the first nine months of 2012, the capitalization rate is based upon annualizing the net operating income for the period we owned the properties.

(b) Capitalization rate and average occupancy for these properties is not meaningful due to our limited ownership period.

In 2012 and 2011, we commenced consolidating three and two facilities, respectively that were owned by entities that we had previously accounted for on the equity method of accounting. See Note 3 to our December 31, 2012 financial statements for further information.

At December 31, 2012, we had a development pipeline of projects to expand existing self-storage facilities and develop new self-storage facilities, which will add approximately 1.3 million net rentable square feet of self-storage space. The aggregate cost of these projects is estimated at \$169 million, of which \$36 million had been incurred at December 31, 2012, and the remaining costs will be incurred principally in 2013. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects and have hired additional personnel; however, due to the difficulty in finding projects that meet our risk-adjusted yield expectations, as well as the difficulty in obtaining building permits for self-storage activities in certain municipalities, it is uncertain as to how much additional development we will undertake in the future.

We believe that our management and operating infrastructure will result in newly acquired facilities stabilizing at a higher level of net operating income than was achieved by the previous owners. However, it can take 24 or more months for these newly acquired facilities to reach stabilization, and the ultimate levels of rent to be achieved can be affected by changes in general economic conditions. As a result, there can be no assurance that our expectations with respect to these facilities will be achieved. However, we expect the Non Same Store Facilities to continue to provide earnings growth during 2013 as these facilities approach stabilized occupancy levels, and the earnings of the 2012 acquisitions are reflected in our operations for a longer period in 2013 as compared to 2012.

Equity in earnings of unconsolidated real estate entities

At December 31, 2012, we have equity investments in PSB, Shurgard Europe and various limited partnerships. We account for such investments using the equity method.

Equity in earnings of unconsolidated real estate entities for 2012, 2011 and 2010 consists of our pro-rata share of the net income of these unconsolidated real estate entities for each period. The following table sets forth the significant components of equity in earnings of unconsolidated real estate entities.

| Historical summary: | Year Ended December 31, | | | Year Ended December 31, | | |
|--------------------------|-------------------------|----------|------------|-------------------------|----------|----------|
| | 2012 | 2011 | Change | 2011 | 2010 | Change |
| | (Amounts in thousands) | | | | | |
| Equity in earnings: | | | | | | |
| PSB | \$10,638 | \$27,781 | \$(17,143) | \$27,781 | \$20,719 | \$7,062 |
| Shurgard | | | | | | |
| Europe | 33,223 | 29,152 | 4,071 | 29,152 | 15,872 | 13,280 |
| Other | | | | | | |
| Investments | 1,725 | 1,771 | (46) | 1,771 | 1,761 | 10 |
| Total equity in earnings | \$45,586 | \$58,704 | \$(13,118) | \$58,704 | \$38,352 | \$20,352 |

Investment in PSB: At December 31, 2012, we have an approximate 41% common equity interest in PSB, comprised of our ownership of 5,801,606 shares of PSB's common stock and 7,305,355 limited partnership units in PSB's underlying operating partnership. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At December 31, 2012, PSB owned and operated 28.3 million rentable square feet of commercial space located in eight states. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB decreased to \$10.6 million in 2012, as compared to \$27.8 million in 2011. This decrease was principally due to (i) the impact of PSB's redemptions of preferred securities in 2011 and 2012, which reduced income allocated to the common equity holders in 2012, and increased income allocable to the common equity holders in 2011, (ii) increased depreciation and interest expense as a result of the properties PSB acquired in 2011 and 2012, partially offset by (iii) incremental income generated by the properties PSB acquired in 2011 and 2012. See Note 4 to our December 31, 2012 financial statements for selected financial information on PSB, as well as PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, www.psbusinessparks.com.

Equity in earnings from PSB increased to \$27.8 million in 2011 as compared to \$20.7 million in 2010. This increase was principally due to (i) incremental income generated by properties that PSB acquired in 2010 and 2011, (ii) reduced income allocations to PSB's preferred securities, due to redemptions, partially offset by (iii) increased depreciation and interest expense, as a result of 2010 and 2011 property acquisitions.

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

Investment in Shurgard Europe: Equity in earnings of Shurgard Europe represents our 49% equity share of Shurgard Europe's net income. At December 31, 2011 and 2012, Shurgard Europe's operations are comprised of 188 wholly-owned facilities with 10.1 million net rentable square feet. Selected financial data for Shurgard Europe for 2012, 2011 and 2010 is included in Note 4 to our December 31, 2012 financial statements. As described in more detail in Note 4, we receive interest income and trademark license fees from Shurgard Europe, of which 49% is classified as equity in earnings and the remaining 51% as interest and other income.

Equity in earnings from Shurgard Europe increased to \$33.2 million for the year ended December 31, 2012 from \$29.2 million for the same period in 2011, representing an increase of \$4.1 million. The increase is due to our equity share of (i) improved property operations, (ii) reduced interest expense due to a reduction in interest rate as a result of refinancing completed in 2011 combined with reduced average principal outstanding due to repayments during 2012,

(iii) the impact of Shurgard Europe's March 2, 2011 acquisition of the remaining 80% interest it did not own in two joint ventures that owned 72 self-storage facilities, partially offset by (iv) a reduction in foreign currency exchange rates when converting Euros into U.S. Dollars for reporting purposes.

Equity in earnings from Shurgard Europe for the year ended December 31, 2011 was \$29.2 million as compared to \$15.9 million for the same period in 2010, representing an increase of \$13.3 million. This increase was due to our equity share of (i) improved property operations, (ii) the acquisition on March 2, 2011, of the remaining 80% interests it did not own in two joint ventures that owned 72 self-storage facilities, resulting in reduced allocations of income to permanent noncontrolling equity interests (and an increased allocation to Shurgard Europe), and (iii) improved foreign currency exchange rates. These items were partially offset by increased interest and general and administrative expenses.

Shurgard Europe has a nominal development pipeline. Accordingly, at least in the short-term, our future earnings from Shurgard Europe will be affected primarily by the operating results of its existing facilities, as well as the exchange rate between the U.S. Dollar and currencies in the countries Shurgard Europe conducts its business, principally the Euro.

European Same Store Facilities: The Shurgard Europe Same Store Pool represents the 162 facilities (8.6 million net rentable square feet, representing 86% of the aggregate net rentable square feet of Shurgard Europe's self-storage portfolio) that have been consolidated and operated by Shurgard Europe on a stabilized basis since January 1, 2010 and therefore provide meaningful comparisons for 2010, 2011 and 2012. We evaluate the performance of these facilities because Shurgard Europe's ability to effectively manage stabilized facilities represents an important measure of its ability to grow its earnings over the long-term.

The following table reflects 100% of the operating results of those 162 facilities, and we restate the exchange rates used in prior year's presentation to the actual exchange rates for 2012. However, only our pro rata share of the operating results for these facilities, based upon the actual exchange rates for each period, is included in "equity in earnings of unconsolidated real estate entities" on our statements of income.

In Note 4 to our December 31, 2012 financial statements, we disclose Shurgard Europe's consolidated operating results for the years ended December 31, 2012, 2011 and 2010. Shurgard Europe's consolidated operating results include 26 additional facilities that are not Same Store Facilities, and are based upon historical exchange rates rather than constant exchange rates for each of the respective periods.

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Selected Operating Data for the Shurgard Europe Same Store Pool (162 facilities):

| | Year Ended December 31, | | | Year Ended September 31, | | |
|---|--|-----------|-------------------|--------------------------|-----------|-------------------|
| | 2012 | 2011 | Percentage Change | 2011 | 2010 | Percentage Change |
| | (Dollar amounts in thousands, except weighted average data, utilizing constant exchange rates) (a) | | | | | |
| Revenues (including late charges and administrative fees) | \$188,115 | \$190,141 | (1.1)% | \$190,141 | \$186,805 | 1.8 % |
| Less: Cost of operations (excluding depreciation and amortization expenses) | 78,615 | 82,105 | (4.3)% | 82,105 | 80,546 | 1.9 % |
| Net operating income (b) | \$109,500 | \$108,036 | 1.4 % | \$108,036 | \$106,259 | 1.7 % |
| Gross margin | 58.2 % | 56.8 % | 2.5 % | 56.8 % | 56.9 % | (0.2)% |
| Weighted average for the period: | | | | | | |
| Square foot occupancy (c) | 83.1 % | 85.2 % | (2.5)% | 85.2 % | 84.8 % | 0.5 % |
| Realized annual rent, prior to late charges and administrative fees, per: | | | | | | |
| Occupied square foot (d)(e) | \$25.80 | \$25.40 | 1.6 % | \$25.40 | \$25.09 | 1.2 % |
| Available square foot ("REVPAF") (e)(f) | \$21.44 | \$21.64 | (0.9)% | \$21.64 | \$21.27 | 1.7 % |
| Weighted average at December 31: | | | | | | |
| Square foot occupancy | 80.9 % | 83.6 % | (3.2)% | 83.6 % | 84.8 % | (1.4)% |
| In place annual rent per occupied square foot (g) | \$29.42 | \$28.65 | 2.7 % | \$28.65 | \$28.03 | 2.2 % |
| Total net rentable square feet (in thousands) | 8,627 | 8,627 | - | 8,627 | 8,627 | - |
| Average Euro to the U.S. Dollar for the period (a): | | | | | | |
| Constant exchange rates used herein | 1.285 | 1.285 | - | 1.285 | 1.285 | - |
| Actual historical exchange rates | 1.285 | 1.392 | (7.7)% | 1.392 | 1.326 | 5.0 % |

(a) In order to isolate changes in the underlying operations from the impact of exchange rates, the amounts in this table are presented on a constant exchange rate basis. The amounts for the years ended December 31, 2011 and 2010 have been restated using the actual exchange rate for the year ended December 31, 2012.

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

net income, net operating cash flow, or other related GAAP financial measures, in evaluating the operating results of the European Same Store Facilities.

- (c) Square foot occupancies represent weighted average occupancy levels over the entire period.
- (d) Realized annual rent per occupied square foot is computed by dividing annualized rental income, before late charges and administrative fees, by the weighted average occupied square feet for the period.
- (e) 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. Realized annual rent takes into consideration promotional discounts, which reduce rental income.
- (f) Realized annual rent per available foot or “REVPAF” is computed by dividing rental income, before late charges and administrative fees, by the total available net rentable square feet for the period.
- (g) In place annual rent per occupied square foot represents annualized contractual rents per occupied square foot without reductions for promotional discounts and excludes late charges and administrative fees.

Net operating income increased 1.4% for the year ended December 31, 2012, as compared to the same period in 2011, due to decreases in expenses offset by lower revenues. Net operating income increased 1.7% for the year ended December 31, 2011, as compared to the same period in 2010, due principally to modest growth in revenue and expenses. Based upon current operating trends and metrics, we expect Shurgard Europe's Same Store Facilities to experience a year over year reduction in revenues at least during the first quarter of 2013.

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

Other Investments: The "Other Investments" at December 31, 2012 are comprised primarily of our equity in earnings from various limited partnerships that own an aggregate of 14 self-storage facilities (792,000 net rentable square feet). Our future earnings with respect to the Other Investments will be dependent upon the operating results of the facilities these entities own. See Note 4 to our December 31, 2012 financial statements under the "Other Investments" for the operating results of these entities.

Ancillary Operations

Ancillary revenues and expenses include amounts associated with (i) the reinsurance of policies against losses to goods stored by tenants in our self-storage facilities in the U.S., (ii) merchandise sales, (iii) commercial property operations and (iv) management of approximately 30 facilities owned by third parties and the 14 facilities owned by the limited partnerships mentioned above.

Commercial property operations are included in our commercial segment and all other ancillary revenues and costs of operations are not allocated to any segment. See Note 11 to our December 31, 2012 financial statements for further information regarding our segments and for a reconciliation of these ancillary revenues and cost of operations to our net income.

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

| | Year Ended December 31 | | | Year Ended December 31, | | |
|--------------------------------------|------------------------|----------|---------|-------------------------|----------|---------|
| | 2012 | 2011 | Change | 2011 | 2010 | Change |
| | (Amounts in thousands) | | | | | |
| Ancillary Revenues: | | | | | | |
| Tenant reinsurance premiums | \$77,977 | \$71,348 | \$6,629 | \$71,348 | \$65,484 | \$5,864 |
| Commercial | 14,071 | 14,592 | (521) | 14,592 | 14,261 | 331 |
| Merchandise and other | 31,591 | 28,149 | 3,442 | 28,149 | 24,636 | 3,513 |
| Total revenues | 123,639 | 114,089 | 9,550 | 114,089 | 104,381 | 9,708 |
| Ancillary Cost of Operations: | | | | | | |
| Tenant reinsurance | 14,429 | 13,407 | 1,022 | 13,407 | 10,552 | 2,855 |
| Commercial | 4,908 | 5,505 | (597) | 5,505 | 5,748 | (243) |
| Merchandise and other | 18,926 | 18,484 | 442 | 18,484 | 17,389 | 1,095 |
| Total cost of operations | 38,263 | 37,396 | 867 | 37,396 | 33,689 | 3,707 |
| Commercial depreciation | 2,810 | 2,654 | 156 | 2,654 | 2,620 | 34 |
| Ancillary net income: | | | | | | |

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| | | | | | | |
|----------------------------|----------|----------|---------|----------|----------|---------|
| Tenant | | | | | | |
| reinsurance | 63,548 | 57,941 | 5,607 | 57,941 | 54,932 | 3,009 |
| Commercial | 6,353 | 6,433 | (80) | 6,433 | 5,893 | 540 |
| Merchandise and other | 12,665 | 9,665 | 3,000 | 9,665 | 7,247 | 2,418 |
| Total ancillary net income | \$82,566 | \$74,039 | \$8,527 | \$74,039 | \$68,072 | \$5,967 |

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

The increase in tenant insurance revenues in 2012 as compared to 2011, and 2011 as compared to 2010, was due primarily to (i) an increase in the number of tenants participating in the insurance program, due to a larger tenant base combined with a higher participation level, and (ii) an increase in average premium rates. On average, approximately 63%, 61%, and 58% of our tenants had such policies during 2012, 2011 and 2010, respectively. We expect less growth in the percentage of tenants with insurance policies, and approximately flat premium rates, in 2013 as compared to the growth experienced in 2012.

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

Merchandise sales and other: We sell locks, boxes, and packing supplies at our self-storage facilities, and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. Over the past two years our merchandise sales and margins improved primarily as a result of higher retail prices for our locks. To a much lesser extent, we manage a total of 44 self-storage facilities in the U.S. for third party owners and various unconsolidated affiliated limited partnerships for a fee.

Other Income and Expense Items

Interest and other income: Interest and other income was \$22.1 million in 2012, \$32.3 million in 2011 and \$29.0 million in 2010, respectively. Interest and other income primarily includes interest income on loans receivable from Shurgard Europe, as well as trademark license fees received from Shurgard Europe for the use of the “Shurgard” trade name. We record 51% of the aggregate interest income and trademark license fees as interest and other income, while the remaining 49% is presented as additional equity in earnings on our statements of income.

Interest and other income received from Shurgard Europe decreased from \$26.7 million in 2011 to \$20.0 million in 2012, due primarily to (i) interest income on a bridge loan to Shurgard Europe of approximately \$2.5 million during 2011 (none in 2012), (ii) reduced interest income on our currently outstanding loan receivable from Shurgard Europe, due to lower average outstanding balance in 2012 versus 2011 and a decrease in the average exchange rate of the U.S. Dollar to the Euro from 1.392 for 2011 to 1.285 for 2012 when converting euro denominated interest on the loan into U.S. Dollars.

Interest and other income from Shurgard Europe increased from \$25.1 million in 2010 to \$26.7 million in 2011, due primarily to (i) \$2.5 million in interest earned during 2011 on the aforementioned bridge loan to Shurgard Europe, and (ii) an increase in the average exchange rate of the U.S. Dollar to the Euro from 1.326 for 2010 as to 1.392 in 2011.

In 2011, we also received \$1.5 million in interest and other income from our joint venture partner for funding its 51% pro rata share of Shurgard Europe’s cost of the Acquired JV Interests for the period from March 2, 2011 until June 15, 2011.

The loan receivable from Shurgard Europe is denominated in Euros, has a balance of €311.0 million (\$411.0 million) as of December 31, 2012, and matures in February 2015. Future interest income recorded in connection with this loan will be dependent upon the average outstanding balance as well as the exchange rate of the Euro versus the U.S. Dollar. All such interest has been paid currently when due and we expect the interest to continue to be paid when due with Shurgard Europe’s operating cash flow. The terms of a loan payable by Shurgard Europe to a bank, with a principal amount of €160 million at December 31, 2012, requires significant principal repayments through the maturity date in November 2014. As a result, in 2012, there were no principal repayments on our loan, and future principal repayments on our loan will be limited until the bank loan is repaid.

Shurgard Europe is currently considering refinancing its debt during 2013, including amounts owed to us. Depending on if, and when, any such refinancing is consummated it would result in reduced interest income due to the repayment of our loan.

During 2011 and 2010, Shurgard Europe repaid €62.7 million (\$85.8 million) and €18.2 million (\$24.5 million), respectively, on our loan.

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

Depreciation and amortization: Depreciation and amortization expense was approximately stable at \$357.8 million, \$358.0 million and \$353.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. The level of future depreciation and amortization will primarily depend upon the level of acquisitions of facilities and the level of capital expenditures we incur on our facilities.

General and administrative expense: General and administrative expense for 2012, 2011, and 2010 is set forth in the following table:

| | Year Ended December 31, 2012 | | | Year Ended December 31, 2011 | | |
|--------------------------------------|---------------------------------|----------|---------|---------------------------------|----------|----------|
| | 2012 | 2011 | Change | 2011 | 2010 | Change |
| | (Amounts in thousands) | | | | | |
| Share-based compensation expense | \$24,312 | \$23,709 | \$603 | \$23,709 | \$11,444 | \$12,265 |
| Costs of senior executives | 4,736 | 3,332 | 1,404 | 3,332 | 3,332 | - |
| Development and acquisition overhead | 6,355 | 4,129 | 2,226 | 4,129 | 5,860 | (1,731) |
| Tax compliance costs and taxes paid | 4,775 | 5,546 | (771) | 5,546 | 3,684 | 1,862 |
| Legal costs | 3,653 | 3,601 | 52 | 3,601 | 2,678 | 923 |
| Public company costs | 2,937 | 2,919 | 18 | 2,919 | 3,133 | (214) |
| Other costs | 10,069 | 9,174 | 895 | 9,174 | 8,356 | 818 |
| Total | \$56,837 | \$52,410 | \$4,427 | \$52,410 | \$38,487 | \$13,923 |

Share-based compensation expense includes the amortization of restricted share units (“RSUs”) and stock options granted to employees, as well as employer taxes incurred upon vesting of RSUs and upon exercise of employee stock options. The level of share-based compensation expense varies based upon the level of grants and forfeitures. Share-based compensation cost increased in 2011 as compared to 2010 due primarily to an increase of \$11.3 million related to a performance-based plan established in 2011 (the “2011 Plan”), with expense recognized on an accelerated basis over five years. Share-based compensation costs increased \$0.6 million in 2012 as compared to 2011, due to additional share-based grants, offset partially by a reduction of \$5.5 million with respect to the 2011 Plan. We expect share-based compensation expense to remain flat in 2013 as compared to 2012. See Note 10 to our December 31, 2012 financial statements for further information on our share-based compensation.

Costs of senior executives represents the cash compensation paid to our chief executive officer and chief financial officer, and has increased due to an increase in incentive compensation paid in 2012 as compared to 2011.

Development and acquisition overhead represents the internal and external expenses of identifying, evaluating, and implementing our acquisition and development activities and varies primarily based upon the level of development and acquisition activities undertaken. Approximately \$1.8 million, \$0.8 million, and \$2.6 million in incremental legal, transfer tax, and other related costs were incurred in connection with the acquisition of real estate facilities in 2012, 2011 and 2010, respectively. The level of such costs to be incurred in 2013 will depend upon the level of acquisition activities, which is not determinable. We have hired additional personnel in late 2012 in connection with an expansion in our development activity, as a result we expect an increase in costs associated with development personnel.

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

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

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

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

Interest expense: Interest expense was \$19.8 million, \$24.2 million and \$30.2 million for 2012, 2011 and 2010, respectively. Interest capitalized into real estate was nominal for all periods due to our minimal real estate development activities.

The decreases in 2012 as compared to 2011, and 2011 as compared to 2010, are due primarily to principal repayments on our mortgage debt and, with respect to the 2011 decrease, repayments on our senior unsecured notes. See Note 6 to our December 31, 2012 financial statements for a schedule of our notes payable balances, principal repayment requirements, and average interest rates.

Foreign Exchange Gain (Loss): We recorded a foreign currency translation gain of \$8.9 million in 2012 and losses of \$7.3 million and \$42.3 million in 2011, and 2010, respectively, representing the change in the U.S. Dollar equivalent of our Euro-based loan receivable from Shurgard Europe due to fluctuations in exchange rates. We have not entered into any agreements to mitigate the impact of currency exchange fluctuations between the U.S. Dollar and the Euro, therefore the amount of U.S. Dollars we will receive on repayment will depend upon the currency exchange rates at that time. We record the exchange gains or losses into net income each period because of our continued expectation of repayment of the loan in the foreseeable future. The U.S. Dollar exchange rate relative to the Euro was approximately 1.322, 1.295 and 1.325 at December 31, 2012, December 31, 2011 and December 31, 2010, respectively.

Future foreign exchange gains or losses will be dependent primarily upon the movement of the Euro relative to the U.S. Dollar, the amount owed from Shurgard Europe and our continued expectation of collecting the principal on the loan in the foreseeable future.

Discontinued Operations: In addition to the revenues and cost of operations of disposed self-storage facilities, discontinued operations includes \$12.1 million, \$2.7 million and \$7.8 million in gains on disposition of real estate facilities in 2012, 2011 and 2010, respectively, and a \$1.9 million impairment charge on real estate and intangible assets incurred in 2010.

Net Income Allocable to Noncontrolling Interests: Net income allocable to noncontrolling interests decreased during 2012 as compared to the 2011, and in 2011 as compared to 2010, due primarily to our acquisition of noncontrolling interests during 2012 and 2011.

Net Income Allocable to Preferred Shareholders: Allocations of net income to our preferred shareholders generally consists of allocations (i) based on distributions and (ii) in applying EITF D-42 when we redeem preferred stock. During 2012, 2011 and 2010, we have redeemed certain existing series of preferred shares and issued additional preferred shares at lower coupon rates. Net income allocable to preferred shareholders in applying EITF D-42 increased in 2012 as compared to 2011, and in 2011 as compared to 2010, due to increases in preferred share redemption activities. Net income allocable to preferred shareholders associated with distributions decreased during 2012 as compared to 2011, and 2011 as compared to 2010, due primarily to lower average dividend rates on our outstanding preferred securities. Based upon our preferred shares outstanding at December 31, 2012, and including the Series W Preferred Shares which were issued on January 16, 2013, our quarterly distribution to our preferred shareholders is expected to be approximately \$49.0 million.

Net Operating Income

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

| | Year Ended December 31, | | |
|---|-------------------------|-------------|------------|
| | 2012 | 2011 | 2010 |
| | (Amounts in thousands) | | |
| Self-storage net operating income: | | | |
| Same Store Facilities | \$1,127,568 | \$1,045,014 | \$979,802 |
| Non Same Store Facilities | 73,656 | 53,672 | 34,879 |
| | 1,201,224 | 1,098,686 | 1,014,681 |
| Self-storage depreciation expense: | | | |
| Same Store Facilities | (313,173) | (319,033) | (316,199) |
| Non Same Store Facilities | (41,798) | (36,282) | (34,426) |
| | (354,971) | (355,315) | (350,625) |
| Self-storage net income: | | | |
| Same Store Facilities | 814,395 | 725,981 | 663,603 |
| Non Same Store Facilities | 31,858 | 17,390 | 453 |
| Total net income from self-storage | 846,253 | 743,371 | 664,056 |
| Ancillary operating revenue | 123,639 | 114,089 | 104,381 |
| Ancillary cost of operations | (38,263) | (37,396) | (33,689) |
| Commercial depreciation and amortization | (2,810) | (2,654) | (2,620) |
| General and administrative expense | (56,837) | (52,410) | (38,487) |
| Asset impairment charges | - | (2,186) | (994) |
| Interest and other income | 22,074 | 32,333 | 29,017 |
| Interest expense | (19,813) | (24,222) | (30,225) |
| Equity in earnings of unconsolidated real estate entities | 45,586 | 58,704 | 38,352 |
| Foreign currency exchange gain (loss) | 8,876 | (7,287) | (42,264) |

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| | | | |
|---|-----------|-----------|-----------|
| Gain on real estate sales and debt retirement | 1,456 | 10,801 | 827 |
| Discontinued operations | 12,874 | 3,316 | 7,760 |
| Net income | \$943,035 | \$836,459 | \$696,114 |

Liquidity and Capital Resources

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

Operating as a REIT, our ability to retain cash flow for reinvestment is restricted. In order for us to maintain our REIT status, a substantial portion of our operating cash flow must be distributed to our shareholders (see “Requirement to Pay Distributions” below). Despite the significant distribution requirements, we have been able to retain a significant amount of our operating cash flow. The following table summarizes our ability to fund capital improvements to maintain our facilities, distributions to the noncontrolling interests, and distributions to our shareholders through the use of cash provided by operating activities. The remaining cash flow generated is available to make both scheduled and optional principal payments on debt and for reinvestment.

| | For the Year Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2012 | 2011 | 2010 |
| | (Amount in thousands) | | |
| Net cash provided by operating activities (a) | \$1,285,659 | \$1,203,452 | \$1,093,221 |
| Capital improvements to real estate facilities | (67,737) | (69,777) | (77,500) |
| Remaining operating cash flow available for distributions to equity holders | 1,217,922 | 1,133,675 | 1,015,721 |
| Distributions paid to: | | | |
| Noncontrolling interests | (5,945) | (14,314) | (24,542) |
| Common shareholders and restricted share unitholders (\$4.40 per share for 2012, \$3.65 per share for 2011 and \$3.05 per share for 2010) | (753,913) | (621,369) | (516,894) |
| Preferred and Equity Shares, Series A shareholders | (205,241) | (224,877) | (237,876) |
| Cash from operations available for principal payments on debt and reinvestment (b) | \$252,823 | \$273,115 | \$236,409 |

(a) Represents net cash provided by operating activities for each respective year as presented in our December 31, 2012 statements of cash flows.

(b) We present cash from operations available for principal payments on debt and reinvestment because we believe it is an important measure to evaluate our ongoing liquidity. This measure is not a substitute for cash flows from operations or net cash flows in evaluating our liquidity, ability to repay our debt, or to meet our distribution requirements.

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

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

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

Summary of Current Cash Balances and Short-term Capital Commitments: At December 31, 2012, cash and cash equivalents totaled \$17.2 million and we had \$133.0 million in borrowings on our line of credit. On January 16, 2013, we raised \$485 million in net proceeds from the issuance of our 5.2% Series W Preferred Shares and repaid the outstanding borrowings on our line of credit. We have \$255 million in scheduled principal repayments in 2013, including \$186 million for our senior notes which mature on March 15, 2013. As noted below, we have a pipeline of development projects with approximately \$133 million in remaining spending. We have no other significant commitments in 2013.

Access to Additional Capital: We have a revolving line of credit for borrowings up to \$300 million which expires March 21, 2017, with no outstanding borrowings at February 25, 2013. We seldom borrow on the line of credit and generally view borrowings on the line as a means to bridge capital needs until we are able to refinance them with permanent capital. When seeking capital, we select the lowest-cost form of permanent capital. For at least the last ten years, we have raised cash proceeds for growth and other corporate purposes primarily through the issuance of preferred securities, while we have issued common shares only in connection with mergers and acquisitions of interests in real estate entities, with one exception. In December 2012, we raised \$101 million from the sale of common shares owned by a wholly-owned subsidiary, which was done to efficiently liquidate that subsidiary. We have no current plans to issue common shares for cash proceeds.

During periods of favorable market conditions, we have generally been able to raise capital from the issuance of preferred securities at an attractive cost of capital. During the years ended December 31, 2012 and 2011, we issued approximately \$1.7 billion and \$862.5 million, respectively, of preferred securities and on January 16, 2013, we issued another \$500.0 million of preferred securities. The net proceeds from these issuances were generally used to fund the redemptions of higher rate preferred securities and thus lower our cost of capital with respect to our overall outstanding preferred securities. During 2013, due to the favorable market conditions, we expect to continue to issue preferred securities with the likelihood that we will build our cash reserves for future investments.

Debt Service Requirements: As of December 31, 2012, our outstanding debt totaled approximately \$468.8 million, including \$133 million outstanding on our line of credit. On January 16, 2013, we repaid the remaining outstanding balance on our line of credit. Approximate principal maturities of our other unsecured and secured debt are as follows (amounts in thousands):

| | Unsecured debt | Secured debt | Total |
|------------|-------------------|-----------------|------------|
| 2013 | \$ 186,460 | \$68,116 | \$254,576 |
| 2014 | - | 35,127 | 35,127 |
| 2015 | - | 30,009 | 30,009 |
| 2016 | - | 10,065 | 10,065 |
| 2017 | - | 1,003 | 1,003 |
| Thereafter | - | 5,048 | 5,048 |
| | \$ 186,460 | \$ 149,368 | \$ 335,828 |

The unsecured debt of \$186.5 million is due on March 15, 2013. Our remaining debt maturities are nominal compared to our annual cash from operations available for debt repayment. We intend to repay the debt at maturity and not seek to refinance it with additional debt.

Our portfolio of real estate facilities is substantially unencumbered. At December 31, 2012, we have 2,001 self-storage facilities with an aggregate net book value of approximately \$7.0 billion that are unencumbered.

Capital Improvement Requirements: Capital improvements include major repairs or replacements to elements of our facilities, which keep the facilities in good operating condition and maintain their visual appeal to the customer. Capital improvements do not include costs relating to the development of new facilities or the expansion of net rentable square footage of existing facilities. We incurred capital improvements totaling \$67.7 million during 2012. During 2013, we expect to incur approximately \$72 million for capital improvements and expect to fund such improvements with operating cash flow. For the last three years, our capital expenditures have ranged between approximately \$0.55 and \$0.60 per net rentable square foot per year.

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

Aggregate REIT qualifying distributions paid during 2012 totaled \$959.2 million, consisting of \$205.2 million to preferred shareholders and \$753.9 million to common shareholders and restricted share unitholders.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2012, including the Series W Preferred Shares issued on January 16, 2013, to be approximately \$196 million per year.

On February 21, 2013, our Board of Trustees declared a regular common quarterly dividend of \$1.25 per common share, representing an increase of 13.6% from the previous regular common dividend of \$1.10 per common share. Our consistent, long-term dividend policy has been to distribute only our taxable income. Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with operating cash flow.

We are obligated to pay distributions to noncontrolling interests in our consolidated subsidiaries based upon the available operating cash flows of the respective subsidiary. We estimate annual distributions of approximately \$6.3 million with respect to such non-controlling interests outstanding at December 31, 2012.

Acquisition Activities: During 2013, we will continue to seek to acquire self-storage facilities from third parties; however, it is difficult to estimate the amount of third party acquisitions we will undertake.

Development Activities: At December 31, 2012, we had a development pipeline of projects to expand existing self-storage facilities and develop new self-storage facilities, which will add approximately 1.3 million net rentable square feet of self-storage space. The aggregate cost of these projects is estimated at \$169 million, of which \$36 million had been incurred at December 31, 2012, and the remaining costs will be incurred principally in 2013. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects and have hired additional personnel; however, due to the difficulty in finding projects that meet our risk-adjusted yield expectations, as well as the difficulty in obtaining building permits for self-storage activities in certain municipalities, it is uncertain as to how much additional development we will undertake in the future.

Shurgard Europe: We have a 49% interest in Shurgard Europe and our institutional partner owns the remaining 51% interest. As of December 31, 2012, Shurgard Europe had two loans outstanding; (i) €159.5 million due to a bank and (ii) €311.0 million due to Public Storage. The loan due to Public Storage (totaling \$411.0 million U.S Dollars) bears

interest at a fixed rate of 9.0% per annum and matures February 15, 2015. The loan can be prepaid in part or in full at any time without penalty. This loan is denominated in Euros and is translated to U.S. Dollars for financial statement purposes.

The bank loan requires significant principal reduction through the maturity date in November 2014. As a result, in 2012, there were no principal repayments on our loan, and future principal repayments on our loan will be limited until the bank loan is repaid. Further, consistent with prior years, we do not expect to receive cash distributions from Shurgard Europe with respect to our 49% equity interest for the foreseeable future.

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

Repurchases of Company's Common Shares: Our Board of Trustees has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During 2012, we did not repurchase any of our common shares. From the inception of the repurchase program through February 25, 2013, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.

Contractual Obligations

Our significant contractual obligations at December 31, 2012 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

| | Total | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
|---------------------------------------|-----------|-----------|----------|----------|----------|---------|------------|
| Long-term debt (1) | \$351,925 | \$264,023 | \$38,533 | \$31,358 | \$10,851 | \$1,324 | \$5,836 |
| Line of credit (2) | 133,064 | 133,064 | - | - | - | - | - |
| Operating leases (3) | 74,681 | 4,731 | 4,615 | 3,661 | 3,567 | 2,722 | 55,385 |
| Construction and purchase commitments | 14,828 | 12,392 | 2,436 | - | - | - | - |
| Total | \$574,498 | \$414,210 | \$45,584 | \$35,019 | \$14,418 | \$4,046 | \$61,221 |

(1) Amounts include principal and interest payments (all of which are fixed-rate) on our notes payable based on their contractual terms. See Note 6 to our December 31, 2012 financial statements for additional information on our notes payable.

(2) Amounts represent borrowings under our \$300 million revolving line of credit, which were repaid in January 2013. See Note 6 to our December 31, 2012 financial statements for additional information on our line of credit.

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

cancellation.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2012, including the Series W Preferred Shares issued on January 16, 2013, to be approximately \$196 million per year. Dividends are paid when and if declared by our Board of Trustees and accumulate if not paid. We have no other series of preferred shares that are redeemable before April 2015 and none of our preferred securities are redeemable at the option of the holders.

Off-Balance Sheet Arrangements: At December 31, 2012, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

To limit our exposure to market risk, we are capitalized primarily with preferred and common equity. Our preferred shares are redeemable at our option generally five years after issuance, but the holder has no redemption option. Our debt is our only market-risk sensitive portion of our capital structure, which totals \$468.8 million and represents 5.8% of the book value of our equity at December 31, 2012.

We have foreign currency exposures related to our investment in Shurgard Europe, which has a book value of \$411.1 million at December 31, 2012. We also have a loan receivable from Shurgard Europe, which is denominated in Euros, totaling €311.0 million (\$411.0 million) at December 31, 2012.

The table below summarizes annual debt maturities and weighted-average interest rates on our outstanding debt at the end of each year and fair values required to evaluate our expected cash-flows under debt agreements and our sensitivity to interest rate changes at December 31, 2012 (dollar amounts in thousands).

| | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter | Total | Fair Value |
|------------------------|-----------|----------|----------|----------|---------|------------|-----------|------------|
| Fixed rate debt | \$254,576 | \$35,127 | \$30,009 | \$10,065 | \$1,003 | \$5,048 | \$335,828 | \$339,634 |
| Average interest rate | 5.87 % | 5.35 % | 5.45 % | 5.57 % | 5.78 % | 5.69 % | | |
| Variable rate debt (1) | \$133,000 | \$- | \$- | \$- | \$- | \$- | \$133,000 | \$133,000 |
| Average interest rate | 1.16 % | | | | | | | |

(1) Amounts represent borrowings under our line of credit which expires in March 2017, which had a variable interest rate at December 31, 2012 of 1.16%. These borrowings were repaid in January 2013.

ITEM 8. Financial Statements and Supplementary Data

The financial statements of the Company at December 31, 2012 and December 31, 2011 and for each of the three years in the period ended December 31, 2012 and the report of Ernst & Young LLP, Independent Registered Public Accounting Firm, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index to Financial Statements and Schedules in Item 15.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

As of December 31, 2012, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2012, at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee on Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of internal control over financial reporting as of December 31, 2012, has been audited by Ernst & Young LLP, independent registered public accounting firm. Ernst & Young LLP's report on our internal control over financial reporting appears below.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2011 to which this report relates that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders of
Public Storage

We have audited Public Storage's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Public Storage's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and trustees of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Public Storage maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Public Storage as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 25, 2013

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PART III

ITEM 10. Trustees, Executive Officers and Corporate Governance

The information required by this item with respect to trustees will be included under the captions titled “Election of Trustees” in the Company’s definitive proxy statement for the 2013 Annual Meeting to be filed with the SEC within 120 days of the fiscal year ended December 31, 2012 (the “2013 Proxy Statement”) and is incorporated herein by reference.

The information required by this item with respect to the nominating process, the audit committee and the audit committee financial expert will be included under the captions “Corporate Governance and Board Matters—Audit Committee”, “Corporate Governance and Board Matters—Consideration of Candidates for Trustee” in the 2013 Proxy Statement and is incorporated herein by reference.

The information required by this item with respect to Section 16(a) compliance will be included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2013 Proxy Statement and is incorporated herein by reference.

The information required by this item with respect to a code of ethics will be included under the caption “Corporate Governance and Board Matters” in the 2013 Proxy Statement and is incorporated herein by reference. Any amendments to or waivers of the code of ethics granted to the Company’s executive officers or the controller will be published promptly on our website or by other appropriate means in accordance with SEC rules and regulations.

The following is a biographical summary of the current executive officers of the Company:

Ronald L. Havner, Jr., age 55, is Chairman of the Board, President and Chief Executive Officer. He was named Chairman in 2011 and has served as the company’s Chief Executive Officer and a member of the Board of Public Storage since November 2002. Mr. Havner has been Chairman of the Board of Public Storage’s affiliate, PS Business Parks, Inc. (PSB), since March 1998. Within the last five years, Mr. Havner served on the boards of Union BanCal Corporation and its subsidiary, Union Bank of California, and General Finance Corporation.

John Reyes, age 52, has served as Senior Vice President and Chief Financial Officer of Public Storage since 1996.

Shawn Weidmann, 49, joined Public Storage as Senior Vice President and Chief Operating Officer in August 2011. Prior to joining Public Storage, Mr. Weidmann was employed at Teleflora LLC, the world’s leading floral wire service, where he served as President since 2006.

David F. Doll, age 54, became Senior Vice President and President, Real Estate Group, in February 2005, with responsibility for the real estate activities of Public Storage, including property acquisitions, developments, repackagings, and capital improvements.

Steven M. Glick, age 56, became Senior Vice President and Chief Legal Officer of Public Storage in February 2010. From April 2005 until joining Public Storage, Mr. Glick was Senior Vice President and General Counsel, Americas for Technicolor (NYSE:TCH), a services, systems and technology company.

Candace N. Krol, age 51, has served as Senior Vice President of Human Resources since September 2005.

ITEM 11. Executive Compensation

The information required by this item will be included under the captions titled “Corporate Governance and Board Matters,” “Executive Compensation,” “Corporate Governance and Board Matters--Compensation Committee Interlocks and Insider Participation,” and “Report of the Compensation Committee” in the 2013 Proxy Statement and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “Stock Ownership of Certain Beneficial Owners and Management.”

The following table sets forth information as of December 31, 2012 on the Company’s equity compensation plans:

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|---|--|--|
| Equity compensation plans approved by security holders (a) | 2,896,157 (b) | \$ 59.24 | 1,535,487 |
| Equity compensation plans not approved by security holders (c) | - | - | 595,002 |

- a) The Company’s stock option and stock incentive plans are described more fully in Note 10 to the December 31, 2012 financial statements. All plans, other than the 2000 and 2001 Non-Executive/Non-Director Plans, were approved by the Company’s shareholders.
- b) Includes 642,647 restricted share units that, if and when vested, will be settled in common shares of the Company on a one for one basis.
- c) The outstanding options granted under plans not approved by the Company’s shareholders were granted under the Company’s 2000 and 2001 Non-Executive/Non-Director Plan, which does not allow participation by the Company’s executive officers and trustees. The principal terms of these plans are as follows: (1) 2,500,000 common shares were authorized for grant, (2) this plan is administered by the Equity Awards Committee, except that grants in excess of 100,000 shares to any one person requires approval by the Executive Equity Awards Committee, (3) options are granted at fair market value on the date of grant, (4) options have a ten year term and (5) options vest over three years in equal installments, or as indicated by the applicable grant agreement.

ITEM 13. Certain Relationships and Related Transactions and Trustee Independence

The information required by this item will be included under the captions titled “Corporate Governance and Board Matters—Trustee Independence” and “Certain Relationships and Related Transactions and Legal Proceedings” in the 2013 Proxy Statement and is incorporated herein by reference.

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ITEM 14. Principal Accountant Fees and Services

The information required by this item will be included under the caption titled “Ratification of Auditors—Fees Billed to the Company by Ernst & Young LLP for 2012 and 2011” in the 2013 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

a. 1. Financial Statements

The financial statements listed in the accompanying Index to Financial Statements and Schedules hereof are filed as part of this report.

2. Financial Statement Schedules

The financial statements schedules listed in the accompanying Index to Financial Statements and Schedules are filed as part of this report.

3. Exhibits

See Index to Exhibits contained herein.

b. Exhibits:

See Index to Exhibits contained herein.

c. Financial Statement Schedules

Not applicable.

PUBLIC STORAGE

INDEX TO EXHIBITS (1)

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

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

- 3.11 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series W. Filed with the Registrant's Current Report on Form 8-K dated January 8, 2013 and incorporated by reference herein.
- 4.1 Master Deposit Agreement, dated as of May 31, 2007. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 10.1 Amended Management Agreement between Registrant and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with Public Storage Inc.'s ("PSI") Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-0839) and incorporated herein by reference.

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

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herein by reference.

- 10.12* Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan. Filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-8 (SEC File No. 333-144907) and incorporated herein by reference.
- 10.13* Form of 2007 Plan Restricted Stock Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference.
- 10.14* Form of 2007 Plan Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference.
- 10.15* Form of Indemnity Agreement. Filed with Registrant's Amendment No. 1 to Registration Statement on Form S-4 (SEC File No. 333-141448) and incorporated herein by reference.

- 10.16* Amendment to Form of Trustee Stock Option Agreement. Filed as Exhibit 10.30 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.
- 10.17* Revised Form of Trustee Stock Option Agreement. Filed as Exhibit 10.31 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.
- 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. Filed herewith.
- 21 Listing of Subsidiaries. Filed herewith.
- 23 Consent of Ernst & Young LLP. Filed herewith.
- 31.1 Rule 13a – 14(a) Certification. Filed herewith.
- 31.2 Rule 13a – 14(a) Certification. Filed herewith.
- 32 Section 1350 Certifications. Filed herewith.

101 .INS**XBRL Instance Document

- 1 0 1XBRL Taxonomy Extension Schema
.SCH**
- 1 0 1XBRL Taxonomy Extension Calculation Linkbase
.CAL**
- 1 0 1XBRL Taxonomy Extension Definition Linkbase
.DEF**
- 1 0 1XBRL Taxonomy Extension Label Linkbase
.LAB**
- 1 0 1XBRL Taxonomy Extension Presentation Link
.PRE**

_(1)SEC tFile No. 001-33519 unless otherwise indicated.

* Denotes management compensatory plan agreement or arrangement.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PUBLIC STORAGE

Date: February 25, 2013

By: /s/ Ronald L. Havner,
Jr.
Ronald L. Havner, Jr., Chairman,
Chief Executive Officer and President

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|---|----------------------|
| /s/ Ronald L. Havner, Jr. Ronald L. Havner, Jr. | Chairman, Chief Executive Officer, President and Trustee (principal executive officer) | February 25, 2013 |
| /s/ John Reyes John Reyes | Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer) | February 25, 2013 |
| /s/ Tamara Hughes Gustavson Tamara Hughes Gustavson | Trustee | February 25, 2013 |
| /s/ Uri P. Harkham Uri P. Harkham | Trustee | February 25, 2013 |
| /s/ B. Wayne Hughes, Jr. B. Wayne Hughes, Jr. | Trustee | February 25, 2013 |
| /s/ Avedick B. Poladian Avedick B. Poladian | Trustee | February 25, 2013 |
| /s/ Gary E. Pruitt Gary E. Pruitt | Trustee | February 25, 2013 |
| /s/ Ronald P. Spogli Ronald P. Spogli | Trustee | February 25, 2013 |
| /s/ Daniel C. Staton Daniel C. Staton | Trustee | February 25, 2013 |

PUBLIC STORAGE
INDEX TO FINANCIAL STATEMENTS
AND SCHEDULES

(Item 15 (a))

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders of
Public Storage

We have audited the accompanying consolidated balance sheets of Public Storage as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Public Storage at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Public Storage's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 25, 2013

PUBLIC STORAGE
BALANCE SHEETS

(Amounts in thousands, except share data)

| | December 31, 2012 | December 31, 2011 |
|---|-------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$17,239 | \$139,008 |
| Real estate facilities, at cost: | | |
| Land | 2,868,925 | 2,811,515 |
| Buildings | 8,201,137 | 7,966,061 |
| | 11,070,062 | 10,777,576 |
| Accumulated depreciation | (3,738,130) | (3,398,379) |
| | 7,331,932 | 7,379,197 |
| Investments in unconsolidated real estate entities | 735,323 | 714,627 |
| Goodwill and other intangible assets, net | 209,374 | 209,833 |
| Loan receivable from unconsolidated real estate entity | 410,995 | 402,693 |
| Other assets | 88,540 | 87,204 |
| Total assets | \$8,793,403 | \$8,932,562 |
| LIABILITIES AND EQUITY | | |
| Borrowings on bank credit facility | \$133,000 | \$- |
| Notes payable | 335,828 | 398,314 |
| Accrued and other liabilities | 201,711 | 210,966 |
| Total liabilities | 670,539 | 609,280 |
| Redeemable noncontrolling interests | - | 12,355 |
| Commitments and contingencies (Note 13) | | |
| Equity: | | |
| Public Storage shareholders' equity: | | |
| Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 113,500 shares issued (in series) and outstanding, (475,000 at December 31, 2011), at liquidation preference | 2,837,500 | 3,111,271 |
| Common Shares, \$0.10 par value, 650,000,000 shares authorized, 171,388,286 shares issued and outstanding (170,238,805 shares at | 17,139 | 17,024 |

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| | | |
|---|-------------|-------------|
| December 31, 2011) | | |
| Paid-in capital | 5,519,596 | 5,442,506 |
| Accumulated deficit | (279,474) | (259,578) |
| Accumulated other comprehensive loss | (1,005) | (23,014) |
| Total Public Storage shareholders' equity | 8,093,756 | 8,288,209 |
| Permanent noncontrolling interests | 29,108 | 22,718 |
| Total equity | 8,122,864 | 8,310,927 |
| Total liabilities and equity | \$8,793,403 | \$8,932,562 |

See accompanying notes.

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

| | For the Years Ended December 31, | | |
|---|----------------------------------|--------------|--------------|
| | 2012 | 2011 | 2010 |
| Revenues: | | | |
| Self-storage facilities | \$ 1,703,090 | \$ 1,603,524 | \$ 1,509,396 |
| Ancillary operations | 123,639 | 114,089 | 104,381 |
| | 1,826,729 | 1,717,613 | 1,613,777 |
| Expenses: | | | |
| Self-storage cost of operations | 501,866 | 504,838 | 494,715 |
| Ancillary cost of operations | 38,263 | 37,396 | 33,689 |
| Depreciation and amortization | 357,781 | 357,969 | 353,245 |
| General and administrative | 56,837 | 52,410 | 38,487 |
| Asset impairment charges | - | 2,186 | 994 |
| | 954,747 | 954,799 | 921,130 |
| Operating income | 871,982 | 762,814 | 692,647 |
| Interest and other income | 22,074 | 32,333 | 29,017 |
| Interest expense | (19,813) | (24,222) | (30,225) |
| Equity in earnings of unconsolidated real estate entities | 45,586 | 58,704 | 38,352 |
| Foreign currency exchange gain (loss) | 8,876 | (7,287) | (42,264) |
| Gain on real estate sales and debt retirement | 1,456 | 10,801 | 827 |
| Income from continuing operations | 930,161 | 833,143 | 688,354 |
| Discontinued operations | 12,874 | 3,316 | 7,760 |
| Net income | 943,035 | 836,459 | 696,114 |
| Allocation to noncontrolling interests | (3,777) | (12,617) | (24,076) |
| Net income allocable to Public Storage shareholders | 939,258 | 823,842 | 672,038 |
| Allocation of net income to: | | | |
| Preferred shareholders - distributions | (205,241) | (224,877) | (232,745) |
| Preferred shareholders - redemptions | (61,696) | (35,585) | (7,889) |
| Equity Shares, Series A - distributions | - | - | (5,131) |
| Equity Shares, Series A - redemptions | - | - | (25,746) |
| Restricted share units | (2,627) | (1,633) | (1,349) |
| Net income allocable to common shareholders | \$ 669,694 | \$ 561,747 | \$ 399,178 |
| Net income per common share – basic | | | |
| Continuing operations | \$ 3.85 | \$ 3.29 | \$ 2.31 |
| Discontinued operations | 0.08 | 0.02 | 0.05 |
| | \$ 3.93 | \$ 3.31 | \$ 2.36 |
| Net income per common share – diluted | | | |
| Continuing operations | \$ 3.83 | \$ 3.27 | \$ 2.30 |

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| | | | |
|---|---------|---------|---------|
| Discontinued operations | 0.07 | 0.02 | 0.05 |
| | \$ 3.90 | \$ 3.29 | \$ 2.35 |
| Basic weighted average common shares outstanding | 170,562 | 169,657 | 168,877 |
| Diluted weighted average common shares outstanding | 171,664 | 170,750 | 169,772 |
| Cash dividends declared per common share | \$ 4.40 | \$ 3.65 | \$ 3.05 |

See accompanying notes.

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PUBLIC STORAGE
STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

| | For the Years Ended December 31, | | |
|---|----------------------------------|------------|------------|
| | 2012 | 2011 | 2010 |
| Net income | \$ 943,035 | \$ 836,459 | \$ 696,114 |
| Other comprehensive (loss) income: | | | |
| Aggregate foreign currency exchange gain (loss) | 30,885 | (14,528) | (43,035) |
| Adjust for foreign currency exchange (gain) loss included in net income | (8,876) | 7,287 | 42,264 |
| Other comprehensive income (loss) | 22,009 | (7,241) | (771) |
| Total comprehensive income | 965,044 | 829,218 | 695,343 |
| Allocation to noncontrolling interests | (3,777) | (12,617) | (24,076) |
| Comprehensive income allocated to Public Storage shareholders | \$ 961,267 | \$ 816,601 | \$ 671,267 |

See accompanying notes.

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PUBLIC STORAGE
STATEMENTS OF EQUITY
(Amounts in thousands, except share and per share amounts)

| | Cumulative Preferred Shares | Common Shares | Paid-in Capital | Accumulated Deficit | Accumulated Comprehensive (Loss) Income | Total Public Storage Shareholders' Equity | Permanent Noncontrolling Interests | Total Equity |
|--|-----------------------------------|------------------|--------------------|------------------------|--|---|--|-----------------|
| Balances at December 31, 2009 | \$3,399,777 | \$16,842 | \$5,680,549 | \$(153,759) | \$(15,002) | \$8,928,407 | \$132,974 | \$9,061,381 |
| Redemption of 10,950,000 preferred shares (Note 8) | (273,750) | - | 800 | - | - | (272,950) | - | (272,950) |
| Issuance of 10,800,000 preferred shares (Note 8) | 270,000 | - | (8,897) | - | - | 261,103 | - | 261,103 |
| Redemption of preferred partnership units (Note 7) | - | - | (400) | - | - | (400) | (100,000) | (100,400) |
| Redemption of Equity Shares, Series A (8,377.193 shares) (Note 8) | - | - | (205,366) | - | - | (205,366) | - | (205,366) |
| Issuance of common shares in connection with share-based compensation (847,280 shares) (Note 10) | - | 85 | 41,223 | - | - | 41,308 | - | 41,308 |
| Share-based compensation expense, net of cash paid in lieu of common shares (Note 10) | - | - | 7,918 | - | - | 7,918 | - | 7,918 |
| Adjustments of redeemable noncontrolling interests to | - | - | - | (319) | - | (319) | - | (319) |

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| | | | | | | | | |
|--|-------------|--------|-----------|-----------|----------|-------------|-----------|-------------|
| liquidation value (Note 7) | | | | | | | | |
| Net income | - | - | - | 696,114 | - | 696,114 | - | 696,114 |
| Net income allocated to (Note 7): | | | | | | | | |
| Redeemable noncontrolling interests | - | - | - | (933) | - | (933) | - | (933) |
| Permanent noncontrolling interests | - | - | - | (22,743) | - | (22,743) | 22,743 | - |
| Distributions to equity holders: | | | | | | | | |
| Preferred shares (Note 8) | - | - | - | (232,745) | - | (232,745) | - | (232,745) |
| Permanent noncontrolling interests | - | - | - | - | - | - | (23,381) | (23,381) |
| Equity Shares, Series A (\$0.6125 per depositary share) | - | - | - | (5,131) | - | (5,131) | - | (5,131) |
| Common shares and restricted share units (\$3.05 per share) | - | - | - | (516,894) | - | (516,894) | - | (516,894) |
| Other comprehensive loss (Note 2) | - | - | - | - | (771) | (771) | - | (771) |
| Balances at December 31, 2010 | 3,396,027 | 16,927 | 5,515,827 | (236,410) | (15,773) | 8,676,598 | 32,336 | 8,708,934 |
| Redemption of 45,890,000 preferred shares (Note 8) | (1,147,256) | - | - | - | - | (1,147,256) | - | (1,147,256) |
| Issuance of 34,500,000 preferred shares (Note 8) | 862,500 | - | (26,873) | - | - | 835,627 | - | 835,627 |
| Issuance of common shares in connection with share-based compensation (508,058 shares) (Note 10) | - | 49 | 26,367 | - | - | 26,416 | - | 26,416 |

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| | | | | | | | | |
|--|---|----|------------|---------|---|------------|-----------|------------|
| Issuance of common shares in connection with acquisition of noncontrolling interests (477,928 shares) (Note 7) | - | 48 | 57,060 | - | - | 57,108 | - | 57,108 |
| Share-based compensation expense, net of cash paid in lieu of common shares (Note 10) | - | - | 19,445 | - | - | 19,445 | - | 19,445 |
| Adjustments of redeemable noncontrolling interests to liquidation value (Note 7) | - | - | - | (764) | - | (764) | - | (764) |
| Increase (decrease) in permanent noncontrolling interests in connection with: | | | | | | | | |
| Consolidation of partially-owned entities (Note 4) | - | - | - | - | - | - | 17,663 | 17,663 |
| Acquisition of interests in Subsidiaries (Note 7) | - | - | (149,320) | - | - | (149,320) | (26,206) | (175,526) |
| Net income | - | - | - | 836,459 | - | - | - | - |