

Edgar Filing: Public Storage - Form 10-Q

Public Storage  
Form 10-Q  
November 09, 2007

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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)

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

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

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

Yes  No

Indicate the number of the registrant's outstanding common shares of beneficial interest, as of November 7, 2007:

Common Shares of beneficial interest, \$.10 par value per share - 170,559,969

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shares

## PUBLIC STORAGE

### INDEX

|  | Pages   |
|--|---------|
| PART I. FINANCIAL INFORMATION  |         |
| Item 1. Financial Statements (Unaudited)   |         |
| Condensed Consolidated Balance Sheets at<br>September 30, 2007 and December 31, 2006                           | 1       |
| Condensed Consolidated Statements of Income for the<br>Three and Nine Months Ended September 30, 2007 and 2006 | 2       |
| Condensed Consolidated Statement of Shareholders' Equity<br>for the Nine Months Ended September 30, 2007       | 3       |
| Condensed Consolidated Statements of Cash Flows<br>for the Nine Months Ended September 30, 2007 and 2006       | 4 - 5   |
| Notes to Condensed Consolidated Financial Statements   | 6 - 41  |
| Item 2. Management's Discussion and Analysis of<br>Financial Condition and Results of Operations               | 42 - 79 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk   | 79 - 80 |
| Item 4. Controls and Procedures  | 80 - 81 |
| PART II. OTHER INFORMATION (Items 3, 4 and 5 are not applicable)   |         |
| Item 1. Legal Proceedings  | 82      |
| Item 1A. Risk Factors  | 82      |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  | 82      |
| Item 6. Exhibits   | 82      |

PUBLIC STORAGE  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts in thousands, except share data)

September 30,  
2007

-----  
(Unaudited)

ASSETS

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|   |    |             |
|---|----|-------------|
| Cash and cash equivalents.....          | \$ | 168,586     |
| Real estate facilities, at cost:        |    |             |
| Land.....                               |    | 2,997,585   |
| Buildings.....                          |    | 8,509,767   |
|   |    | -----       |
|   |    | 11,507,352  |
| Accumulated depreciation.....           |    | (2,034,014) |
|   |    | -----       |
|   |    | 9,473,338   |
| Construction in process.....            |    | 103,657     |
|   |    | -----       |
|   |    | 9,576,995   |
| Investment in real estate entities..... |    | 317,982     |
| Goodwill.....                           |    | 174,634     |
| Intangible assets, net.....             |    | 222,168     |
| Restricted cash.....                    |    | 20,844      |
| Other assets.....                       |    | 148,414     |
|   |    | -----       |
| Total assets.....                       | \$ | 10,629,623  |
|   |    | =====       |

LIABILITIES AND SHAREHOLDERS' EQUITY

|   |    |             |
|---|----|-------------|
| Borrowings on bank credit facilities.....   | \$ | -           |
| Notes payable.....  |    | 1,004,507   |
| Debt to joint venture partner.....  |    | 37,395      |
| Preferred stock called for redemption.....  |    | -           |
| Accrued and other liabilities.....  |    | 323,091     |
|   |    | -----       |
| Total liabilities.....  |    | 1,364,993   |
| Minority interest:  |    |             |
| Preferred partnership interests.....  |    | 325,000     |
| Other partnership interests.....  |    | 181,772     |
| Commitments and contingencies (Note 15)   |    |             |
| Shareholders' equity:   |    |             |
| Cumulative Preferred Shares of beneficial interest, \$0.01 par value,<br>100,000,000 shares authorized, 1,739,500 shares issued (in series) and<br>outstanding, (1,712,600 at December 31, 2006) at liquidation preference..... |    | 3,527,500   |
| Common Shares of beneficial interest, \$0.10 par value, 650,000,000 shares<br>authorized, 169,402,880 shares issued and outstanding (169,144,467 at<br>December 31, 2006).....  |    | 16,941      |
| Equity Shares of beneficial interest, Series A, \$0.01 par value,<br>100,000,000 shares authorized, 8,744.193 shares issued and outstanding..   |    | -           |
| Paid-in capital.....  |    | 5,652,304   |
| Cumulative net income.....  |    | 3,792,940   |
| Cumulative distributions paid.....  |    | (4,295,512) |
| Accumulated other comprehensive income.....   |    | 63,685      |
|   |    | -----       |
| Total shareholders' equity.....   |    | 8,757,858   |
|   |    | -----       |
| Total liabilities and shareholders' equity.....   | \$ | 10,629,623  |
|   |    | =====       |

See accompanying notes.

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

(Unaudited)

|   | Three Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|
|   | 2007                                | 2006       |
| <b>Revenues:</b>  |                                     |            |
| Self-storage rental income.....   | \$ 427,949                          | \$ 328,782 |
| Ancillary operating revenue.....  | 37,754                              | 29,827     |
| Interest and other income.....  | 3,257                               | 12,651     |
|   | 468,960                             | 371,260    |
| <b>Expenses:</b>  |                                     |            |
| Cost of operations (excluding depreciation and<br>amortization):  |                                     |            |
| Self-storage facilities.....  | 143,371                             | 109,106    |
| Ancillary operations.....   | 22,687                              | 18,514     |
| Depreciation and amortization.....  | 147,767                             | 113,463    |
| General and administrative.....   | 11,416                              | 36,242     |
| Interest expense.....   | 15,257                              | 9,323      |
|   | 340,498                             | 286,648    |
| Income from continuing operations before equity in<br>earnings of real estate entities, casualty gain, gain<br>on disposition of real estate investments, foreign<br>currency exchange gain (loss), income from derivatives<br>and minority interest in income..... | 128,462                             | 84,612     |
| Equity in earnings of real estate entities.....   | 3,424                               | 2,618      |
| Casualty gain .....   | -                                   | -          |
| Gain on disposition of real estate investments.....   | 92                                  | 756        |
| Foreign currency exchange gain (loss).....  | 30,384                              | (172)      |
| Income from derivatives, net.....   | 117                                 | 32         |
| Minority interest in income.....  | (8,304)                             | (8,590)    |
|   | 154,175                             | 79,256     |
| Income from continuing operations.....  | 154,175                             | 79,256     |
| Cumulative effect of a change in accounting principle.....  | -                                   | -          |
| Discontinued operations.....  | (1,409)                             | 1,925      |
|   | -                                   | 1,925      |
| Net income.....   | \$ 152,766                          | \$ 81,181  |
| <b>Net income allocation:</b>   |                                     |            |
| Allocable to preferred shareholders based on<br>distributions paid.....   | \$ 60,333                           | \$ 60,265  |
| Allocable to preferred shareholders based on redemptions.....   | -                                   | 21,643     |
| Allocable to Equity Shares, Series A.....   | 5,356                               | 5,356      |
| Allocable to common shareholders.....   | 87,077                              | (6,083)    |
|   | \$ 152,766                          | \$ 81,181  |
| <b>Net income (loss) per common share - basic</b>   |                                     |            |
| Continuing operations.....  | \$ 0.52                             | \$ (0.05)  |
| Discontinued operations.....  | (0.01)                              | 0.01       |

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|  |         |           |
|--|---------|-----------|
|  | \$ 0.51 | \$ (0.04) |
| Net income (loss) per common share - diluted   |         |           |
| Continuing operations.....   | \$ 0.52 | \$ (0.05) |
| Discontinued operations.....   | (0.01)  | 0.01      |
|  | \$ 0.51 | \$ (0.04) |
| Net income per depositary share representing Equity Shares, Series A (basic and diluted) ..... | \$ 0.61 | \$ 0.61   |
| Basic weighted average common shares outstanding.....  | 169,374 | 145,387   |
| Diluted weighted average common shares outstanding.....  | 170,085 | 145,387   |
| Weighted average Equity Shares, Series A (basic and diluted).....                              | 8,744   | 8,744     |

See accompanying notes.

2

PUBLIC STORAGE  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(Amounts in thousands, except share data)

(Unaudited)

|  | Cumulative<br>Preferred Shares | Common Shares | Pa |
|--|--------------------------------|---------------|----|
| Balance at December 31, 2006.....                        | \$ 2,855,000                   | \$ 16,915     | \$ |
| Issuance of cumulative preferred shares:                 |                                |               |    |
| Series M (20,000 shares).....                            | 500,000                        | -             |    |
| Series N (6,900 shares).....                             | 172,500                        | -             |    |
| Issuance of common shares in connection with:            |                                |               |    |
| Exercise of employee stock options (191,095 shares)...   | -                              | 19            |    |
| Vesting of restricted shares (67,318 shares) .....       | -                              | 7             |    |
| Stock-based compensation expense (Note 13) .....         | -                              | -             |    |
| Net income.....  | -                              | -             |    |
| Cash distributions:                                      |                                |               |    |
| Cumulative preferred shares (Note 11).....               | -                              | -             |    |
| Equity Shares, Series A (\$1.838 per depositary share).. | -                              | -             |    |
| Common Shares (\$1.50 per share).....                    | -                              | -             |    |
| Accumulated other comprehensive income:                  |                                |               |    |
| Foreign currency translation adjustments not reflected   |                                |               |    |

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|                                    |              |           |    |
|------------------------------------|--------------|-----------|----|
| in net income.....                 | -            | -         | -  |
| Balance at September 30, 2007..... | \$ 3,527,500 | \$ 16,941 | \$ |

PUBLIC STORAGE  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(Amounts in thousands, except share data)

(Unaudited)

|  | Cumulative<br>Distributions | Accumulated<br>Other<br>Comprehensive<br>Income |
|--|-----------------------------|---|
| Balance at December 31, 2006.....  | \$ (3,847,998)              | \$ 19,329                                       |
| Issuance of cumulative preferred shares:                                     |                             |   |
| Series M (20,000 shares).....  | -                           | -   |
| Series N (6,900 shares).....   | -                           | -   |
| Issuance of common shares in connection with:                                |                             |   |
| Exercise of employee stock options (191,095 shares)...                       | -                           | -   |
| Vesting of restricted shares (67,318 shares) .....                           | -                           | -   |
| Stock-based compensation expense (Note 13) .....                             | -                           | -   |
| Net income.....  | -                           | -   |
| Cash distributions:  |                             |   |
| Cumulative preferred shares (Note 11).....                                   | (176,424)                   | -   |
| Equity Shares, Series A (\$1.838 per depository share)..                     | (16,068)                    | -   |
| Common Shares (\$1.50 per share).....  | (255,022)                   | -   |
| Accumulated other comprehensive income:                                      |                             |   |
| Foreign currency translation adjustments not reflected<br>in net income..... | -                           | 44,356  |
| Balance at September 30, 2007.....   | \$ (4,295,512)              | \$ 63,685                                       |

See accompanying notes.

3

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

(Unaudited)

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For the Nine Months Ended  
September 30,

2007

Cash flows from operating activities:

|   |            |
|---|------------|
| Net income.....   | \$ 289,648 |
| Adjustments to reconcile net income to net cash provided by operating activities:                   |            |
| Amortization of note premium, net of increase in debt to joint venture partner (Notes 7 and 8)..... | (3,592)    |
| Gain on sales of real estate and real estate investments (Notes 4 and 14).....                      | (2,330)    |
| Depreciation and amortization.....  | 491,725    |
| Write off of capitalized development project costs.....   | 1,615      |
| Equity in earnings of real estate entities.....   | (10,183)   |
| Foreign currency exchange (gain) loss.....  | (40,977)   |
| Income from derivatives, net.....   | (1,126)    |
| Distributions received from the real estate entities (Note 5).....                                  | 17,185     |
| Minority interest in income.....  | 21,611     |
| Other operating activities.....   | (11,985)   |
| Total adjustments.....  | 461,943    |
| Net cash provided by operating activities.....  | 751,591    |

Cash flows from investing activities:

|   |           |
|---|-----------|
| Capital improvements to real estate facilities .....                  | (49,453)  |
| Construction in process.....  | (81,134)  |
| Acquisition of minority interests.....                                | -         |
| Acquisition of real estate facilities.....                            | (72,787)  |
| (Deconsolidation) consolidation of partnerships (Note 2).....         | (65)      |
| Cash portion of the merger with Shurgard (Note 3).....                | -         |
| Proceeds from sales of real estate.....                               | 2,008     |
| Sale of real estate investments to affiliates (Note 10).....          | 4,909     |
| Additions to restricted cash.....                                     | (944)     |
| Proceeds from sales of held-to-maturity debt securities (Note 2)..... | 6,019     |
| Net cash used in investing activities.....                            | (191,447) |

Cash flows from financing activities:

|   |           |
|---|-----------|
| Principal payments on notes payable.....  | (504,658) |
| Net repayments on bank credit facilities.....                                   | (345,000) |
| Contributions received from European minority interests.....                    | -         |
| Proceeds from borrowings on European notes payable.....                         | 39,602    |
| Net proceeds from the issuance of common shares.....                            | 8,052     |
| Net proceeds from the issuance of cumulative preferred shares.....              | 651,892   |
| Redemption of cumulative preferred shares.....                                  | (302,150) |
| Issuance of preferred partnership interests.....                                | -         |
| Distributions paid to shareholders.....   | (447,514) |
| Distributions paid to holders of preferred partnership interests (Note 10)..... | (16,209)  |
| Distributions paid to other minority interests.....                             | (15,828)  |
| Net cash used in financing activities.....                                      | (931,813) |

|   |           |
|---|-----------|
| Net decrease in cash and cash equivalents.....              | (371,669) |
| Net effect of foreign exchange translation on cash.....     | 4,571     |
| Cash and cash equivalents at the beginning of the year..... | 535,684   |

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Cash and cash equivalents at the end of the period..... \$ 168,586  
 =====

See accompanying notes.

4

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

(Unaudited)

(Continued)

Supplemental schedule of non-cash investing and financing activities:

Foreign currency translation adjustment:

|  |             |
|--|-------------|
| Real estate facilities, net of accumulated depreciation..... | \$ (99,305) |
| Construction in process.....                                 | (3,610)     |
| Intangible assets, net.....                                  | (14,718)    |
| Other assets.....  | (4,694)     |
| Notes payable.....   | 26,337      |
| Accrued and other liabilities.....                           | 7,094       |
| Minority interest - other partnership interests.....         | 8,134       |
| Accumulated other comprehensive income (loss).....           | 85,333      |

Deconsolidation of real estate entities:

|  |          |
|--|----------|
| Real estate facilities, net of accumulated depreciation..... | 41,409   |
| Investment in real estate entities.....                      | (23,079) |
| Intangible assets, net.....                                  | 1,816    |
| Other assets.....  | 344      |
| Notes payable.....   | (19,329) |
| Accrued and other liabilities.....                           | (544)    |
| Minority interests .....                                     | (682)    |

|  |   |
|--|---|
| Real estate acquired in exchange for assumption of mortgage note.....    | - |
| Mortgage note assumed in connection with acquisition of real estate..... | - |

Merger with Shurgard Storage Centers, Inc.:

|                                    |   |
|------------------------------------|---|
| Real estate facilities.....        | - |
| Intangible assets.....             | - |
| Other assets.....                  | - |
| Accrued and other liabilities..... | - |
| Minority interest.....             | - |
| Debt.....                          | - |
| Common stock.....                  | - |
| Paid in capital.....               | - |

Consolidation of entities pursuant to Emerging Issues Task Force Topic 04-5:

|  |   |
|--|---|
| Minority interest - other partnership interests..... | - |
| Real estate facilities.....                          | - |
| Investments in real estate entities.....             | - |
| Other assets.....                                    | - |
| Accrued and other liabilities.....                   | - |



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Revaluation of debt to joint venture partner:

Debt due to joint venture partner.....
Other assets.....

See accompanying notes.

5

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(Unaudited)

1. Description of the Business

Public Storage, Inc., formerly a California corporation, was organized in 1980. Effective June 1, 2007, following approval by our shareholders, we reorganized Public Storage, Inc. into Public Storage, a Maryland real estate investment trust (referred to herein as "the Company", "the Trust", "we", "us", or "our"). We are a fully integrated, self-administered and self-managed real estate investment trust ("REIT") whose principal business activities include the acquisition, development, ownership and operation of self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use. Our self-storage facilities are located primarily in the United States. As a result of the merger with Shurgard Storage Centers, Inc. ("Shurgard") on August 22, 2006, we also have self-storage facilities located in seven Western European countries (Note 3).

In addition to our self-storage facilities, we own (i) interests in commercial properties containing commercial and industrial rental space, (ii) interests in facilities that lease storage containers, and (iii) other ancillary operations conducted at our self-storage locations comprised principally of reinsurance of policies against losses to goods stored by our self-storage tenants, retail sales of storage related products and truck rentals.

At September 30, 2007, we had direct and indirect equity interests in 2,012 self-storage facilities located in 38 states operating under the "Public Storage" name, and 169 self-storage facilities located in Europe which operate under the "Shurgard Storage Centers" name. We also have direct and indirect equity interests in approximately 20 million net rentable square feet of commercial space located in 11 states in the United States.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation have been reflected in these unaudited condensed consolidated financial statements. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. The accompanying unaudited condensed consolidated financial statements should be read together with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K (and amendments thereto) for the year ended December 31, 2006.

Certain amounts previously reported have been reclassified to conform to the September 30, 2007 presentation. In previous presentations, certain cash balances held by our captive insurance entities which are restricted as to their use were included in cash and cash equivalents on the Company's condensed consolidated balance sheets. These restricted balances are reclassified as "restricted cash" (see also "Restricted Cash" below). In previous presentations, revenues and cost of operations with respect to our Commercial facilities and Containerized Storage facilities

6

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

were reported on separate lines on our condensed consolidated statements of income. In our current presentation, revenues with respect to each of these operations, along with revenues from our tenant reinsurance, retail, truck and property management operations, are included under the caption "Revenues: Ancillary operations" and the related cost of operations are included in "Expenses: Cost of operations - Ancillary operations" on our accompanying condensed consolidated statements of income. Certain reclassifications have also been made from previous presentations as a result of discontinued operations.

#### Consolidation Policy

-----

Entities in which we have an interest are first evaluated to determine whether, in accordance with the provisions of the Financial Accounting Standards Board's Interpretation No. 46R, "Consolidation of Variable Interest Entities," they represent Variable Interest Entities ("VIE's"). VIE's in which we are the primary beneficiary are consolidated. Entities that are not VIE's that we control are consolidated.

For purposes of determining control, when we are the general partner, we are considered to control the partnership unless the limited partners possess substantial "kick-out" or "participative" rights as defined in Emerging Issues Task Force Statement 04-5 - "Determining whether a general partner or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights" ("EITF 04-5"). All significant intercompany balances and transactions have been eliminated.

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The accounts of the entities we control along with the accounts of the VIE's that we are the primary beneficiary of are included in our consolidated financial statements along with those of the Company. We account for our investment in entities that we do not control, or entities for which we are not the primary beneficiary and over which we have significant influence, using the equity method of accounting. Changes in consolidation status are reflected effective the date the change of control or determination of primary beneficiary status occurred, and previously reported periods are not restated. The entities that we consolidate during the periods to which the reference applies, are referred to hereinafter as the "Consolidated Entities." The entities that we have an interest in but do not consolidate during the periods to which the reference applies, are referred to hereinafter as the "Unconsolidated Entities."

Collectively, at September 30, 2007, the Company and the Consolidated Entities own a total of 2,157 real estate facilities, consisting of 1,979 self-storage facilities in the United States, 169 facilities in Europe, three industrial facilities used by the containerized storage operations and six commercial properties.

At September 30, 2007, the Unconsolidated Entities are comprised of our equity investments in various limited and joint venture partnerships owning an aggregate of 33 self-storage facilities, as well as our ownership of approximately 44% of the common equity of PS Business Parks, Inc. ("PSB"), which has interests in approximately 19.6 million net rentable square feet of commercial space at September 30, 2007.

### Deconsolidation of Certain Entities

-----

On May 24, 2007, a judgment was rendered which resulted in our losing effective control over several entities in which we had acquired an interest in connection with the acquisition of Shurgard Storage Centers. These entities owned 11 facilities with approximately 624,000 net rentable square feet at September 30, 2007. Because of our loss of control, we discontinued consolidation of these entities and therefore began to account for them on the equity method, effective the date of the judgment. Notwithstanding our loss of control, we continue to retain all of our previous financial interests in these partnerships.

The deconsolidation of these entities resulted in an increase in Investment in Real Estate Entities of \$23,079,000, and adjustments to the following balance sheet accounts, representing the balance sheet amounts of these entities:

7

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

|                             | Total       |
|-----------------------------|-------------|
|                             | -----       |
| Real estate facilities, net | \$ (41,409) |
| Intangible assets.....      | (1,816)     |
| Cash.....                   | (65)        |
| Other assets.....           | (344)       |
| Debt.....                   | 19,329      |

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|                               |             |
|-------------------------------|-------------|
| Accrued and other liabilities | 544         |
| Minority interest .....       | 682         |
|                               | -----       |
|                               | \$ (23,079) |
|                               | =====       |

Use of Estimates  
-----

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

Income Taxes  
-----

For all taxable years subsequent to 1980, the Company qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, we do not incur federal or significant state tax on that portion of our taxable income which is distributed to our shareholders, provided that we meet certain tests. We believe we will meet these tests during 2007 and, accordingly, no provision for income taxes has been made in the accompanying condensed consolidated financial statements on income produced and distributed on real estate rental operations.

Financial Instruments  
-----

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

For purposes of financial statement presentation, we consider all highly liquid financial instruments such as short-term treasury securities or investment grade short-term commercial paper to be cash equivalents.

Due to the short period to maturity of our cash and cash equivalents, accounts receivable, other financial instruments included in other assets, and accrued and other liabilities, the carrying values as presented on the consolidated balance sheets are reasonable estimates of fair value.

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents, consisting of short-term investments, including commercial paper, are only invested in entities with an investment grade rating. Accounts receivable are not a significant portion of total assets and are comprised of a large number of small individual customer balances.

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Due to the acquisition of European subsidiaries in the merger with Shurgard, the results of our operations and our financial position are affected by the fluctuations in the value of the euro, and to a lesser extent, other European currencies, against the U.S. dollar.

Other assets at September 30, 2007 include investments totaling \$745,000 (\$6,764,000 at December 31, 2006) representing held-to-maturity Federal government agency securities stated at amortized cost, which approximates fair value. Other assets at September 30, 2007 also include derivative financial instruments totaling \$5,660,000 (\$11,810,000 at December 31, 2006) reported at estimated fair value. See Note 9 for further discussion of the fair value of our derivative financial instruments.

### Restricted Cash

-----

Restricted cash at September 30, 2007 and December 31, 2006, consists of cash held by our captive insurance entities which, due to insurance and other regulations with respect to required reserves and minimum capital requirements, can only be utilized to pay captive claims.

### Real Estate Facilities

-----

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

### Evaluation of Asset Impairment

-----

We evaluate impairment of goodwill annually through a two-step process. In the first step, if the fair value of the reporting unit to which the goodwill applies is equal to or greater than the carrying amount of the assets of the reporting unit, including the goodwill, the goodwill is considered unimpaired and the second step is unnecessary. If, however, the fair value of the reporting unit including goodwill is less than the carrying amount, the second step is performed. In this test, we compute the implied fair value of the goodwill based upon the allocations that would be made to the goodwill, other assets and liabilities of the reporting unit if a business combination transaction were consummated at the fair value of the reporting unit. An impairment loss is recorded to the extent that the implied fair value of the goodwill is less than the goodwill's carrying amount. No impairments of our goodwill were identified in our annual evaluation at December 31, 2006.

We evaluate impairment of long-lived assets on a quarterly basis. We first evaluate these assets for indicators of impairment such as a) a significant decrease in the market price of a long-lived asset, b) a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition, c) a significant adverse change in legal factors or the business climate that could affect the value of the long-lived asset, d) an accumulation of costs significantly in excess of the amount originally projected for the acquisition or construction of the long-lived asset, or e) a current-period operating or

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cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the long-lived asset. When any such indicators of impairment are noted, we compare the carrying value of these assets to the future estimated undiscounted cash flows attributable to these assets. If the asset's recoverable amount is less than the carrying value of the asset, then an impairment charge is booked for the excess of carrying value over the asset's fair value.

Any long-lived assets which we expect to sell or otherwise dispose of prior to their previously estimated useful life are stated at what we estimate to be the lower of their estimated net realizable value (less cost to sell) or their carrying value. No impairment was identified from our evaluations as of September 30, 2007.

9

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

### Accounting for Stock-Based Compensation

-----

We utilize the Fair Value Method (as defined in Note 13) of accounting for our employee stock options. Restricted share unit expense is recorded over the relevant vesting period. See Note 13 for a discussion of our accounting with respect to employee share options and restricted share units.

### Other Assets

-----

Other assets primarily consists of prepaid expenses, investments in held-to-maturity debt securities, accounts receivable, assets associated with our containerized storage business, merchandise inventory and rental trucks. Included in other assets is approximately \$61 million and \$65 million at September 30, 2007 and December 31, 2006, respectively, from our European operations.

### Accrued and Other Liabilities

-----

Accrued and other liabilities consist primarily of real property tax accruals, value-added tax accruals with respect to our European operations, prepayments of rents, trade payables, losses and loss adjustment liabilities for our self-insured risks (described below), and accrued interest. Prepaid rent totaled \$65,154,000 at September 30, 2007 (\$64,291,000 at December 31, 2006), while property and value-added tax accruals approximated \$110,077,000 at September 30, 2007 (\$80,336,000 at December 31, 2006).

We are self-insured for a portion of the risks associated with our property and casualty losses, workers compensation, and employee health care. We also utilize third-party insurance carriers to limit our self insurance exposure. We accrue liabilities for uninsured losses and loss adjustment expense, which at September 30, 2007 totaled \$33,931,000 (\$31,532,000 at December 31, 2006). Liabilities for losses and loss adjustment expenses include an amount we determine from loss reports and individual cases and an amount, based on recommendations from an

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independent actuary that is a member of the American Academy of Actuaries using a frequency and severity method, for losses incurred but not reported. Determining the liability for unpaid losses and loss adjustment expense is based upon estimates.

Through a wholly-owned subsidiary, we reinsure policies against claims for losses to goods stored by tenants in our self-storage facilities. For our United States operations, we have third-party insurance coverage for losses from any individual event that exceeds a loss of \$1,500,000, to a maximum of \$9,000,000. Estimated uninsured losses are accrued as ancillary costs of operations.

While we believe that the amount of estimated accrued liabilities with respect to tenant claims, property, casualty, workers compensation, and employee healthcare are adequate, the ultimate losses that are actually paid may be different than what we have accrued. The methods for making such estimates and for establishing the resulting liabilities are regularly reviewed.

Included in accrued and other liabilities is \$91,783,000 and \$108,331,000 at September 30, 2007 and December 31, 2006, respectively, from our European operations.

### Goodwill and Intangible Assets

-----

Goodwill represents the excess of acquisition cost over the fair value of net tangible and identifiable intangible assets acquired in business combinations. Each business combination from which our goodwill arose was for the acquisition of single businesses and accordingly, the

10

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

allocation of our goodwill to our business segments (principally Domestic Self-Storage) is based directly on such acquisitions. Our goodwill has an indeterminate life in accordance with the provisions of Statement of Financial Accounting Standards No. 142 ("SFAS 142").

As a result of the merger with Shurgard (Note 3), we acquired finite-lived intangible assets comprised primarily of tenant intangibles valued at \$565,341,000 and the "Shurgard" tradename, which we continue to use in Europe, valued at \$18,824,000. Our intangible assets were increased by \$14,718,000 during the nine months ended September 30, 2007 due to the impact of changes in exchange rates. During the nine months ended September 30, 2007, our intangible assets increased \$5,135,000 for storage tenants in place with respect to self-storage facility acquisitions. Also during the nine months ended September 30, 2007, our intangible assets decreased \$1,816,000 in connection with the deconsolidation of our investment in certain real estate entities (Note 5). Our finite-lived intangible assets are reported net of accumulated amortization of \$386,415,000 as of September 30, 2007 (\$175,944,000 as of December 31, 2006).

The tenant intangible assets are amortized relative to the expected benefit of the tenants in place to each period and relative to the benefit of the below-market leases. The Shurgard tradename has an indefinite life and, accordingly, we do not amortize this asset but instead

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analyze it on an annual basis for impairment.

Amortization expense of \$53,320,000 and \$210,471,000 was recorded for our finite-lived intangible assets for the three and nine months ended September 30, 2007, respectively. The estimated annual amortization expense for our finite-lived intangible assets for the current year and each of the next four years ending December 31 is as follows:

|                     |    |            |
|---------------------|----|------------|
| 2007 (remainder of) | \$ | 37,757,000 |
| 2008                |    | 79,838,000 |
| 2009                |    | 27,409,000 |
| 2010                |    | 16,418,000 |
| 2011                |    | 12,644,000 |
| 2012 and beyond     |    | 29,278,000 |

### Revenue and Expense Recognition

-----

Rental income, which is generally earned pursuant to month-to-month leases for storage space, is recognized as earned. Promotional discounts are recognized as a reduction to rental income over the promotional period, which is generally during the first month of occupancy. Late charges and administrative fees are recognized as income when collected. Tenant reinsurance premiums are recognized as premium revenue when earned. Revenues from merchandise sales and truck rentals are recognized when earned. Interest income is recognized as earned. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the Unconsolidated Entities.

We accrue for property tax expense based upon estimates and historical trends. If these estimates are incorrect, the timing and amount of expense recognition could be affected.

Cost of operations, general and administrative expense, interest expense, as well as television, yellow page, and other advertising expenditures are expensed as incurred.

During the second quarter of 2007, a share offering of Shurgard Europe, our European operations, was initiated to be listed on EuronextTM Brussels. Due to adverse market conditions, this offering was withdrawn on June 21, 2007. There is no estimate as to when or if a future offering may occur. We incurred \$9.5 million in expenses related to the proposed offering of shares which is included in general and administrative expense for the nine months ended September 30, 2007.

11

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

### Foreign Exchange Translation

-----

The local currency is the functional currency for our European subsidiaries. Assets and liabilities (other than for intercompany balances, which are discussed below) are translated at end-of-period exchange rates while revenues and expenses are translated at the average exchange rates in effect during the period. The Euro was translated at an end-of-period



## Edgar Filing: Public Storage - Form 10-Q

exchange rate of approximately 1.426 in U.S. dollars per Euro at September 30, 2007 (1.319 at December 31, 2006). Equity is translated at historical rates and the resulting cumulative translation adjustments, to the extent not included in net income, are included as a component of accumulated other comprehensive income (loss) until the translation adjustments are realized. Included in other accumulated comprehensive income was a cumulative foreign currency translation adjustment gain of \$63,685,000 at September 30, 2007 (\$19,329,000 at December 31, 2006).

With respect to intercompany balances among our European subsidiaries and our domestic operations, when settlement of such intercompany balances are not expected in the near term (generally within one to two years), the impact of end-of-period exchange rate changes on the expected settlement amounts in U.S. Dollars are reflected in accumulated other comprehensive income (loss). However, for any other intercompany balances where settlement is expected in the foreseeable future, changes in exchange rates are recorded in income in the period in which the change occurs. For the three and nine months ended September 30, 2007, we recorded foreign currency exchange gains of \$30,384,000 and \$40,977,000, respectively, on our condensed consolidated statements of income, principally related to such intercompany balances. Substantially all of such intercompany balances are expected to settle in the foreseeable future. At September 30, 2007 and December 31, 2006, our European subsidiaries had intercompany balances payable to our United States operations totaling \$556,186,000 and \$542,162,000, respectively.

### Accounting for Casualty Losses

-----

Our policy is to record casualty losses or gains in the period the casualty occurs equal to the differential between (a) the book value of assets destroyed and (b) insurance proceeds, if any, that we expect to receive in accordance with our insurance contracts. Potential insurance proceeds that are subject to uncertainties, such as interpretation of deductible provisions of the governing agreements or the estimation of costs of restoration, are treated as contingent proceeds in accordance with Statement of Financial Accounting Standards No. 5 ("SFAS 5"), and not recorded until the uncertainties are satisfied. During the first quarter of 2007, we recorded a casualty gain totaling \$2,665,000, representing the realization of such contingent proceeds relating to hurricanes which occurred in 2005.

### Derivative Financial Instruments

-----

We have certain derivative financial instruments held by our two joint ventures in Europe, including interest rate caps, interest rate swaps, cross-currency swaps and foreign currency forward contracts. These derivatives were entered into by the joint ventures in order to mitigate currency and exchange rate fluctuation risk in connection with European borrowings, and are not for speculative or trading purposes.

In accordance with the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Financial Instruments and Hedging Activities ("SFAS 133"), derivative financial instruments are measured at fair value and recognized on the balance sheet as assets or liabilities.

As of September 30, 2007, none of the derivatives were considered effective hedges because we believe it is not highly likely that the debt and the related derivative instruments will remain outstanding for their entire contractual period. Accordingly, all changes in the fair values of

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the derivatives are reflected in earnings, along with the related cash flows from these instruments, under "Income from derivatives, net" on our condensed consolidated statements of income.

12

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

Other Comprehensive Income  
-----

Our comprehensive income is as follows (amounts in thousands):

|   | For the Three Months Ended<br>September 30, |           | For the Nine<br>Months Ended<br>September 30, |
|---|---|-----------|---|
|   | 2007  | 2006      | 2007  |
| Net income.....   | \$ 152,766                                  | \$ 81,181 | \$ 289,648                                    |
| Accumulated other comprehensive income<br>(loss):                           |   |           |   |
| Aggregate foreign currency translation<br>adjustments.....                  | 58,396                                      | (11,269)  | 85,333  |
| Less: foreign currency translation<br>adjustments reflected in net income.. | (30,384)                                    | -         | (40,977)                                      |
| Total comprehensive income.....   | \$ 180,778                                  | \$ 69,912 | \$ 334,004                                    |

Other comprehensive income reflects our net income, adjusted for any portion of currency translation adjustments related to our European subsidiaries measured from the beginning to the end of each respective period, which have already been reflected in our net income.

Environmental Costs  
-----

Our policy is to accrue environmental assessments and estimated remediation costs 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 our facilities, which individually or in the aggregate would be material to our overall business, financial condition, or results of operations.

Discontinued Operations  
-----

We segregate all of our disposed components that have operations that can be distinguished from the rest of the Company and will be eliminated from the ongoing operations of the Company in a disposal transaction. Discontinued operations principally consists of the historical

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operations related to facilities that were closed and are no longer in operation and facilities that have been disposed of either through condemnation by a local governmental agency or sale. In the three and nine months ended September 30, 2007, loss from discontinued operations totaled \$1,409,000 and \$3,238,000, respectively, as compared to net income totaling \$1,925,000 and \$1,558,000, respectively for the same periods in 2006.

### Net Income per Common Share

-----

In computing net income allocated to our common shareholders, we first allocate net income to our preferred shareholders. Distributions paid to the holders of our Cumulative Preferred Shares totaling \$60,333,000 and \$176,424,000 for the three and nine months ended September 30, 2007, respectively, and \$60,265,000 and \$159,256,000 for the three and nine months ended September 30, 2006, respectively, have been deducted from net income to arrive at net income allocable to our common shareholders.

When we call any of our Cumulative Preferred Shares for redemption, we record an additional allocation of income to our preferred

13

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

shareholders equal to the excess of a) the cash required to redeem the securities over b) the "Book Value" (the net proceeds from the original issuance of the securities) of the securities. An additional allocation of \$21,643,000 was recorded for the three and nine months ended September 30, 2006.

The remaining income allocated to our common shareholders has been further allocated among our regular common shares and our Equity Shares, Series A. The allocation among each class was based upon the two-class method. Under the two-class method, earnings per share for each class of common shares are determined according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under the two-class method, the Equity Shares, Series A, were allocated net income of \$5,356,000 and \$16,068,000 for each of the three and nine months ended September 30, 2007 and 2006, respectively. Income of \$87,077,000 and \$97,156,000 for the three and nine months ended September 30, 2007, respectively, and loss of \$6,083,000 and income of \$127,292,000 for the three and nine months ended September 30, 2006, respectively, was allocated to the regular common shareholders.

Basic net income per share is computed using the weighted average common shares outstanding (prior to the dilutive impact of stock options and restricted share units outstanding). Diluted net income per common share is computed using the weighted average common shares outstanding (adjusted for the impact if dilutive, of stock options and restricted share units outstanding). Weighted average common shares excludes shares owned by the Consolidated Entities as described in Note 11 for all periods presented, as these common shares are eliminated in consolidation.

### Recently Issued Accounting Standards

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## Edgar Filing: Public Storage - Form 10-Q

### The Fair Value Option for Financial Assets and Financial ----- Liabilities -----

In February 2007, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have a material impact on our financial condition or results of operations.

### Accounting for Uncertainty in Income Taxes -----

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). This interpretation, among other things, creates a two step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions, and it has expanded disclosure requirements. FIN 48 was effective for fiscal years beginning after December 15, 2006, in which the impact of adoption should be accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings. We adopted the provisions of FIN 48 as of January 1, 2007. The adoption of FIN 48 had no material impact on our financial position, operating results or cash flows. See Note 16 for further discussion of our adoption of FIN 48.

14

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

### Fair Value Measurement -----

In 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the impact to be material to

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our financial condition or results of operations.

### 3. Merger with Shurgard

-----

On August 22, 2006, we merged with Shurgard, a REIT which had interests in 487 self-storage facilities in the United States and 160 self-storage facilities in Europe.

Shurgard shareholders received 0.82 shares of Public Storage, Inc. common stock for each share of Shurgard common stock they owned. Total consideration for the merger was approximately \$5,323,956,000.

The results of operations of the facilities acquired from Shurgard have been included in our consolidated financial statements since the merger date of August 22, 2006.

### 4. Real Estate Facilities

-----

Activity in real estate facilities is as follows:

15

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

|  | Nine Months Ended<br>September 30, 2007 |
|--|---|
| (Amounts in thousands)                               |   |
| Real estate facilities, at cost:                     |   |
| Balance at December 31, 2006.....                    | \$ 11,261,865                           |
| Newly developed facilities opened for operations.... | 71,125                                  |
| Acquisition of real estate facilities.....           | 67,652                                  |
| Deconsolidation of Entities (Note 2) .....           | (42,473)                                |
| Disposition of real estate facilities.....           | (1,239)                                 |
| Capital improvements.....                            | 49,453                                  |
| Impact of foreign exchange rate changes.....         | 100,969                                 |
|  | 11,507,352                              |
| Accumulated depreciation:                            |   |
| Balance at December 31, 2006.....                    | (1,754,362)                             |
| Deconsolidation of Entities (Note 2) .....           | 1,064                                   |
| Additions during the year.....                       | (279,420)                               |
| Dispositions during the year.....                    | 368                                     |
| Impact of foreign exchange rate changes.....         | (1,664)                                 |
|  | (2,034,014)                             |
| Construction in process:                             |   |
| Balance at December 31, 2006.....                    | 90,038                                  |
| Current development.....                             | 81,134                                  |
| Newly developed facilities opened for operations.... | (71,125)                                |
| Impact of foreign exchange rate changes.....         | 3,610                                   |
|  | 93,657                                  |

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|   |              |
|---|--------------|
| Balance at September 30, 2007.....                      | 103,657      |
|   | -----        |
| Total real estate facilities at September 30, 2007..... | \$ 9,576,995 |
|   | =====        |

During the nine months ended September 30, 2007, we completed six development and seven expansion projects which in aggregate added approximately 614,000 net rentable square feet of self-storage space at a total cost of \$71,125,000. In addition, we acquired seven self-storage facilities (511,000 net rentable square feet) from third parties for an aggregate cost of \$72,787,000, in cash; \$67,652,000 was allocated to real estate facilities and \$5,135,000 was allocated to intangibles, based upon the estimated relative fair values of the land, buildings and intangibles.

Construction in process at September 30, 2007 includes 39 projects in the United States (1,711,000 net rentable square feet), consisting of newly developed self-storage facilities, conversion of space at facilities that was previously used for containerized storage and expansions to existing self-storage facilities, with costs incurred of \$43,579,000 at September 30, 2007 and total estimated costs to complete of \$106,878,000. In addition, we have 16 projects to develop new self-storage facilities in Europe (793,000 aggregate net rentable square feet), with costs incurred at September 30, 2007 of \$60,078,000 and total estimated costs to complete of \$84,184,000.

We capitalize interest incurred on debt during the course of construction of our self-storage facilities. Interest capitalized for the three and nine months ended September 30, 2007 was \$1,297,000 and \$3,011,000, respectively, as compared to \$530,000 and \$1,599,000 for the same periods in 2006.

During the nine months ended September 30, 2007, we have received proceeds for partial condemnations and other disposals to certain of our self-storage facilities for an aggregate of \$2,008,000 and recorded a gain

16

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

of \$1,137,000 as a result of these transactions. In connection with the sale of limited liability partner interests in Shurgard Europe (Note 10), we also recorded a gain of \$1,193,000 for the three and nine months ended September 30, 2007, representing the excess of the sales proceeds less the book value of the interests sold. The gain is reflected in gain on disposition of real estate investments on our accompanying condensed consolidated statements of income.

Included in real estate facilities, accumulated depreciation, and construction in process is \$1.6 billion with respect to our European operations at September 30, 2007.

5. Investment in Real Estate Entities  
-----

Interests in entities for periods that they are either VIE's that we are not the primary beneficiary of, or other non-VIE entities that we do not have a controlling financial interest in, are accounted for using the equity method of accounting. At September 30, 2007, our investments in real

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estate entities consist of ownership interests in the Unconsolidated Entities.

For the three and nine months ended September 30, 2007, we recognized earnings from our investments in real estate entities of \$3,424,000 and \$10,183,000, respectively, as compared to \$2,618,000 and \$9,208,000 for the same periods in 2006.

We received cash distributions from our investments in real estate entities for the nine months ended September 30, 2007 and 2006, of \$17,185,000 and \$15,049,000, respectively.

During the nine months ended September 30, 2007, our investments in real estates entities increased \$23,079,000 due to the deconsolidation of certain entities we had acquired an interest in, in connection with the merger with Shurgard. See Note 2 for further information.

The following table sets forth our investments in real estate entities at September 30, 2007 and December 31, 2006, and our equity in earnings of real estate entities for the three and nine months ended September 30, 2007 and 2006 (amounts in thousands):

|                        | Investments in Real Estate<br>Entities at |                      | Equity in Earnings of Real<br>Estate Entities for the Three<br>Months Ended Septembe 30, |                 |
|------------------------|---|----------------------|--|-----------------|
|                        | September 30,<br>2007                     | December 31,<br>2006 | 2007   | 2006            |
| PSB.....               | \$ 277,049                                | \$ 283,700           | \$ 2,522   | \$ 2,018        |
| Other Investments..... | 40,933                                    | 18,205               | 902  | 600             |
| <b>Total.....</b>      | <b>\$ 317,982</b>                         | <b>\$ 301,905</b>    | <b>\$ 3,424</b>  | <b>\$ 2,618</b> |

### Investment in PSB

PS Business Parks, Inc. is a REIT traded on the American Stock Exchange, which controls an operating partnership (collectively, the REIT and the operating partnership are referred to as "PSB"). We have a 44% common equity interest in PSB as of September 30, 2007. This common equity interest is comprised of our ownership of 5,418,273 shares of PSB's common stock and 7,305,355 limited partnership units in the operating partnership at both September 30, 2007 and December 31, 2006; these limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at September 30, 2007 (\$56.85 per share of PSB common stock), the shares and units had a market value of approximately \$723.3 million as compared to a book value of \$277.0 million.

## Edgar Filing: Public Storage - Form 10-Q

At September 30, 2007, PSB owned approximately 19.6 million net rentable square feet of commercial space. In addition, PSB manages commercial space owned by the Company and the Consolidated Entities pursuant to property management agreements.

The following table sets forth selected financial information of PSB; the amounts represent 100% of PSB's balances and not our pro-rata share.

|   | 2007       | 2006       |
|---|------------|------------|
| -----   |            |            |
| (Amounts in thousands)                                |            |            |
| For the nine months ended September 30,               |            |            |
| Total operating revenue.....                          | \$ 201,471 | \$ 180,050 |
| Costs of operations and other operating expenses..... | (68,603)   | (60,618)   |
| Other income and expense, net.....                    | 1,013      | 3,799      |
| Depreciation and amortization.....                    | (71,841)   | (63,720)   |
| Discontinued operations.....                          | -          | 1,643      |
| Minority interest.....                                | (9,888)    | (13,450)   |
|   | -----      | -----      |
| Net income.....                                       | \$ 52,152  | \$ 47,704  |
|   | =====      | =====      |

|   | At September 30,<br>2007 | At December 31,<br>2006 |
|---|--------------------------|-------------------------|
| -----   |                          |                         |
| (Amounts in thousands)                                |                          |                         |
| Total assets (primarily real estate).....             | \$ 1,549,951             | \$ 1,462,864            |
| Total debt.....                                       | 61,064                   | 67,048                  |
| Preferred equity and preferred minority interests.... | 811,000                  | 705,250                 |
| Common equity and common minority interests.....      | 631,199                  | 648,172                 |

### Other Investments -----

Other investments include an aggregate common equity ownership of approximately 29% in a) 12 entities that own an aggregate of 33 self-storage facilities that we held on a consistent basis for each of the three and nine months ended September 30, 2007 and 2006, respectively, and b) entities owning 11 self-storage facilities which we deconsolidated effective May 24, 2007 as described in Note 2.

The following table sets forth certain condensed financial information (representing 100% of these entities' balances and not our pro-rata share) with respect to these other investments:



## Edgar Filing: Public Storage - Form 10-Q

PUBLIC STORAGE  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2007  
 (Unaudited)

|  | 2007                   | 2006            |
|--|------------------------|-----------------|
|  | -----                  | -----           |
|  | (Amounts in thousands) |                 |
| For the nine months ended September 30,          |                        |                 |
| Total revenue.....                               | \$ 17,493              | \$ 17,209       |
| Cost of operations and other expenses            | (7,908)                | (6,929)         |
| Depreciation and amortization.....               | (2,210)                | (2,272)         |
|  | -----                  | -----           |
| Net income.....                                  | \$ 7,375               | \$ 8,008        |
|  | =====                  | =====           |
|  | At September 30,       | At December 31, |
|  | 2007                   | 2006            |
|  | -----                  | -----           |
|  | (Amounts in thousands) |                 |
| Total assets (primarily storage facilities)..... | \$ 73,042              | \$ 73,031       |
| Total liabilities.....                           | 21,205                 | 21,112          |
| Total Partners' equity.....                      | 51,837                 | 51,919          |

### 6. Revolving Line of Credit

On December 27, 2006, we entered into a \$300 million unsecured short-term credit agreement (the "Bridge Loan") with a commercial bank that matured April 1, 2007. Pursuant to the credit agreement, we borrowed \$300 million at an initial interest rate of LIBOR plus 0.30% (5.63% at December 31, 2006). At December 31, 2006, our outstanding borrowings under this facility totaled \$300 million. On January 10, 2007, borrowings under this facility were repaid in full and the Bridge Loan terminated.

On March 27, 2007, we entered into a five-year revolving credit agreement (the "Credit Agreement") with an aggregate limit with respect to borrowings and letters of credit of \$300 million, and bears an annual interest rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.35% to LIBOR plus 1.00% depending on our credit ratings (LIBOR plus 0.35% at September 30, 2007). In addition, we are required to pay a quarterly facility fee ranging from 0.10% per annum to 0.25% per annum depending on our credit ratings (0.10% per annum at September 30, 2007). We had no outstanding borrowings on our revolving line of credit at September 30, 2007 or at November 8, 2007.

The Credit Agreement includes various covenants, the more significant of which require us to (i) maintain a leverage ratio (as defined therein) of less than 0.55 to 1.00, (ii) maintain certain fixed charge and interest coverage ratios (as defined therein) of not less than 1.5 to 1.0 and 1.75 to 1.0, respectively, and (iii) maintain a minimum total shareholders' equity (as defined therein). We were in compliance with all covenants of the Credit Agreement at September 30, 2007.

At September 30, 2007, we had undrawn standby letters of credit, which reduce our borrowing capability with respect to our line of credit by the amount of the letters of credit, totaling \$20,408,000 (\$21,068,000 at December 31, 2006). The beneficiaries of these standby letters of credit were primarily certain insurance companies associated with our captive

## Edgar Filing: Public Storage - Form 10-Q

insurance and tenant re-insurance activities.

### 7. Notes Payable

The carrying amounts of our notes payable at September 30, 2007 and December 31, 2006 consist of the following (dollar amounts in thousands):

19

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

|   | September 30,<br>2007 |
|---|-----------------------|
|   | -----                 |
| Domestic Unsecured Notes Payable:   |                       |
| 5.875% effective and stated note rate, interest only and payable  |                       |
| semi-annually, matures in March 2013.....   | \$ 200,000            |
| 5.73% effective rate, 7.75% stated note rate, interest only and payable   |                       |
| semi-annually, matures in February 2011 (carrying amount includes \$11,877 of unamortized premium at September 30, 2007) .....  | 211,877               |
| 6.53% effective rate, 7.625% stated note rate, interest only and payable  |                       |
| semi-annually, due April 2007.....  | -                     |
| 7.66% senior unsecured note due January 2007.....   | -                     |
| Domestic Mortgage Notes:  |                       |
| 5.59% average effective rate fixed rate mortgage notes payable, secured by 53 real estate facilities with a net book value of \$410,853 at September 30, 2007 and stated note rates between 4.95% and 7.76%, due between October 2007 and August 2015 (carrying amount includes \$3,392 of unamortized premium at September 30, 2007) .....   | 145,021               |
| Variable rate mortgage notes payable.....   | -                     |
| 5.29% average effective rate fixed rate mortgage notes payable, secured by 33 real estate facilities with a net book value of \$187,678 at September 30, 2007, stated note rates between 5.40% and 8.75%, principal and interest payable monthly, due at varying dates between October 2009 and September 2028 (carrying amount includes \$3,771 of unamortized premium at September 30, 2007)..... | 87,834                |
| European Secured Notes Payable:   |                       |
| (euro)325 million notes payable due originally in 2011, but prepaid in January 2007.....  | -                     |
| First Shurgard credit agreement, due in 2008, secured by 38 real estate facilities with a net book value of \$282,300 at September 30, 2007 (interest rate of EURIBOR + 2.25%, 6.187% average for the nine months ended September 30, 2007, 6.659% rate at September 30, 2007 which approximate market rates).....  | 185,111               |
| Second Shurgard credit agreement, due in 2009, secured by 26 real estate facilities with a net book value of \$199,200 at September 30, 2007  |                       |

## Edgar Filing: Public Storage - Form 10-Q

|  |              |
|--|--------------|
| (interest rate of EURIBOR + 2.25%, 6.187% average for the nine months ended September 30, 2007, 6.659% rate at September 30, 2007 which approximate market rates)..... | 167,570      |
| Liability under Capital Leases.....  | 7,094        |
|  | -----        |
| Total notes payable.....   | \$ 1,004,507 |
|  | =====        |

The 5.875% and 5.73% effective rate domestic unsecured notes payable were recorded at their estimated fair value upon assumption based upon estimated market rates for debt with similar terms and ratings. As of September 30, 2007 the aggregate fair value of these notes was approximately \$415,344,000 as compared to the actual assumed balances of \$400,000,000. This initial premium of \$15,344,000 is being amortized over the remaining term of the notes using the effective interest method.

20

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

The domestic unsecured notes payable have various restrictive covenants, the more significant of which require us to (i) maintain a ratio of debt to total assets (as defined therein) of less than 0.60 to 1.00, (ii) maintain a ratio of secured debt to total assets (as defined therein) of less than 0.40 to 1.00, (iii) maintain a debt service coverage ratio (as defined therein) of greater than 1.50 to 1.00, and (iv) maintain a ratio of unencumbered assets to unsecured debt (as defined therein) of greater than 150%, all of which have been met at September 30, 2007.

The 5.59% average effective rate fixed rate domestic mortgage notes were recorded at their estimated fair value based upon the estimated market rate upon assumption of approximately 5.59%, an aggregate of approximately \$184,592,000 as compared to the actual assumed balances of an aggregate of \$179,827,000. This initial premium of \$4,765,000 is being amortized over the remaining term of the mortgage notes using the effective interest method. These mortgage notes require interest and principal payments to be paid monthly and have various restrictive covenants, all of which we believe have been met at September 30, 2007.

On January 2, 2007, we repaid the (euro)325 million collateralized European notes that were otherwise payable in 2011. We also terminated the related European currency and interest rate hedges.

First Shurgard and Second Shurgard, joint venture partnerships in which we have a 20% interest, (see Note 10) have senior credit agreements denominated in euros to borrow, in aggregate, up to (euro)271 million (\$386.5 million as of September 30, 2007). As of September 30, 2007, the available amounts under those credit facilities were, in the aggregate, (euro)22.5 million (\$32.1 million). Our draws under the First Shurgard and Second Shurgard credit facilities can be limited if the completion of projects is not timely and if we have certain cost overruns. The credit facilities also require us to maintain a maximum loan to value of the collateral ratio and a minimum debt service ratio. As of September 30, 2007, we were in compliance with these financial covenants.

At September 30, 2007, approximate principal maturities of our

## Edgar Filing: Public Storage - Form 10-Q

notes payable are as follows (amounts in thousands):

|                                 | Domestic<br>Unsecured<br>Notes Payable | Domestic<br>Mortgage Notes<br>Payable | European<br>Notes Payable | Liabilities<br>under<br>Capital Lease |
|---------------------------------|--|---------------------------------------|---------------------------|---------------------------------------|
| 2007 (remainder of).....        | \$ 808                                 | \$ 2,097                              | \$ 856                    | \$ 18                                 |
| 2008.....                       | 3,404                                  | 20,505                                | 184,256                   | 112                                   |
| 2009.....                       | 3,605                                  | 8,707                                 | 167,569                   | 123                                   |
| 2010.....                       | 3,817                                  | 10,584                                | -                         | 85                                    |
| 2011.....                       | 200,243                                | 27,355                                | -                         | 782                                   |
| Thereafter.....                 | 200,000                                | 163,607                               | -                         | 5,974                                 |
|                                 | \$ 411,877                             | \$ 232,855                            | \$ 352,681                | \$ 7,094                              |
| Weighted average effective rate | 5.8%                                   | 5.5%                                  | 6.2%                      | 9.9%                                  |

We incurred interest expense with respect to our notes payable, capital leases, debt to joint venture partner and line of credit aggregating \$51,783,000 and \$14,351,000 for the nine months ended September 30, 2007 and 2006, respectively. These amounts were comprised of \$55,375,000 and \$15,189,000 in cash for the nine months ended September 30, 2007 and 2006, respectively, less \$3,592,000 and \$838,000 in amortization of premium net of increase in debt to Joint Venture Partner described in Note 8, respectively.

The net book value of the properties under capital leases was \$33,451,000 as of September 30, 2007, which is net of accumulated depreciation of \$1,241,000.

21

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

8. Debt to Joint Venture Partner

On December 31, 2004, we sold seven self-storage facilities to an unconsolidated affiliated joint venture for \$22,993,000. On January 14, 2005, we sold an 86.7% interest in three additional self-storage facilities to the joint venture for an aggregate amount of \$27,424,000. Our partner's combined equity contribution with respect to these transactions was \$35,292,000. Due to our continuing interest in these facilities and the likelihood that we will exercise our option to acquire our partner's interest, we have accounted for our partner's investment in these facilities as, in substance, debt financing. Accordingly, our partner's investment with respect to these facilities is accounted for as a liability on our accompanying consolidated balance sheets. Our partner's share of operations with respect to these facilities has been accounted for as interest expense on our accompanying consolidated statements of income.

The outstanding balances of \$37,395,000 and \$37,258,000 due the

## Edgar Filing: Public Storage - Form 10-Q

joint venture partner as of September 30, 2007 and December 31, 2006, respectively, approximate the fair value of our partner's interest in these facilities as of each respective date. On a quarterly basis, we review the fair value of this liability, and to the extent fair value exceeds the carrying value of the liability, an adjustment is made to increase the liability to fair value, and to increase other assets, with the other assets amortized over the remaining period term of the joint venture. We increased the note balance by \$1,386,000 during 2006 as a result of our periodic review of fair value.

A total of \$2,375,000 and \$2,276,000 was recorded as interest expense on our condensed consolidated statements of income with respect to our Debt to Joint Venture Partner during the nine months ended September 30, 2007 and 2006, respectively, representing our partner's pro rata share of net earnings with respect to the properties we sold to the Acquisition Joint Venture (an 8.5% return on their investment). This interest expense was comprised of a total of \$2,239,000 and \$2,146,000 paid to our joint venture partner (an 8.0% return payable currently in accordance with the partnership agreement) during the nine months ended September 30, 2007 and 2006, respectively, and increases in the Debt to Joint Venture Partner of \$136,000 and \$130,000 for the nine months ended September 30, 2007 and 2006, respectively.

We expect that this debt will be repaid during 2008, assuming that we exercise our option to acquire our partner's interest in the Acquisition Joint Venture.

### 9. Derivative Financial Instruments

As described in Note 2, under Derivative Financial Instruments, we report these derivative financial instruments at fair value on our consolidated balance sheet and changes in fair values for the nine months ended September 30, 2007, have been recognized in earnings. The respective balances of these financial instruments are included in other assets and accrued and other liabilities as follows:

|  | September 30,<br>2007  | December 31,<br>2006 |
|--|------------------------|----------------------|
|  | -----                  | -----                |
|  | (Amounts in thousands) |                      |
| <b>Assets:</b>                           |                        |                      |
| Interest rate contracts.....             | \$ 5,660               | \$ 11,810            |
|  | =====                  | =====                |
| <b>Liabilities:</b>                      |                        |                      |
| Interest rate contracts.....             | \$ -                   | \$ (4,162)           |
| Foreign currency exchange contracts..... | (1,146)                | (7,837)              |
|  | -----                  | -----                |
|  | \$ (1,146)             | \$ (11,999)          |
|  | =====                  | =====                |

For the nine months ended September 30, 2007, net income from derivatives of \$1,126,000 was comprised of a change in value of the related instruments representing gain of \$1,205,000, offset by \$79,000 in net payments incurred during the period under the underlying instruments.

## Edgar Filing: Public Storage - Form 10-Q

(Unaudited)

On January 2, 2007, in connection with our prepayment of the (euro)325 million collateralized notes at our European operations, we terminated the related European currency and interest rate hedges.

### 10. Minority Interest

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In consolidation, we classify ownership interests in the net assets of each of the Consolidated Entities, other than our own, as minority interest on the condensed consolidated financial statements. Minority interest in income consists of the minority interests' share of the operating results of the Consolidated Entities.

#### Preferred Partnership Interests

The following table summarizes the preferred partnership units outstanding at September 30, 2007 and December 31, 2006:

| Series                 | Earliest Redemption<br>Date or Dates<br>Redeemed | Distribution<br>Rate | September 30, 2007<br>Units<br>Outstanding | Carrying<br>Amount | December 31, 2006<br>Units<br>Outstanding |
|------------------------|--|----------------------|--|--------------------|---|
| -----                  | -----  | -----                | -----                                      | -----              | -----                                     |
| (Amounts in thousands) |  |                      |  |                    |   |
| Series NN.....         | March 17, 2010                                   | 6.400%               | 8,000                                      | \$ 200,000         | 8,000                                     |
| Series Z.....          | October 12, 2009                                 | 6.250%               | 1,000                                      | 25,000             | 1,000                                     |
| Series J.....          | May 9, 2011                                      | 7.250%               | 4,000                                      | 100,000            | 4,000                                     |
| Total.....             |  |                      | 13,000                                     | \$ 325,000         | 13,000                                    |
|                        |  |                      | 13,000                                     | \$ 325,000         | 13,000                                    |

Income allocated to the preferred minority interests totaled \$16,209,000 and \$13,652,000 for the nine months ended September 30, 2007 and 2006, respectively, comprised of distributions paid.

On May 9, 2006, one of the Consolidated Entities issued 4,000,000 units of our 7.25% Series J Preferred Partnership Units for cash proceeds of \$100,000,000.

Subject to certain conditions, the Series NN preferred units are convertible into our 6.40% Series NN Cumulative Preferred Shares of beneficial interest, the Series Z preferred units are convertible into our 6.25% Series Z Cumulative Preferred Shares of beneficial interest and the Series J preferred units are convertible into our 7.25% Series J Cumulative Preferred Shares of beneficial interest. The holders of the Series Z preferred partnership units have a one-time option exercisable five years from issuance (October 12, 2009), to require us to redeem their units for \$25,000,000 in cash, plus any unpaid distribution.

#### Other Partnership Interests

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Income is allocated to the minority interests based upon their pro rata interest in the operating results of the Consolidated Entities. The following tables set forth the minority interests at September 30, 2007 and December 31, 2006 as well as the income allocated to minority interests

## Edgar Filing: Public Storage - Form 10-Q

for the three and nine months ended September 30, 2007 and 2006 with respect to the other partnership interests (amounts in thousands):

23

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

| Description                        | Minority Interest at  |                      |
|------------------------------------|-----------------------|----------------------|
|                                    | September 30,<br>2007 | December 31,<br>2006 |
| European joint ventures.....       | \$ 140,893            | \$ 140,034           |
| European investors.....            | 3,607                 | -                    |
| Convertible Partnership Units..... | 5,494                 | 5,710                |
| Other consolidated partnerships... | 31,778                | 35,286               |
| Total other partnership interests. | \$ 181,772            | \$ 181,030           |
|                                    | =====                 | =====                |

| Description                        | Minority Interests<br>in Income (Loss)<br>for the Three Months Ended |                       | Minority Interests<br>in Income (Loss)<br>for the Nine Months Ended |                   |
|------------------------------------|--|-----------------------|---|-------------------|
|                                    | September 30,<br>2007  | September 30,<br>2006 | September 30,<br>2007   | September<br>2006 |
| European joint ventures.....       | \$ (1,456)   | \$ (1,279)            | \$ (7,275)  | \$ (1,            |
| European investors.....            | (109)  | -                     | (109)   |                   |
| Convertible Partnership Units..... | 121  | 120                   | 132   |                   |
| Other consolidated partnerships..  | 4,345  | 4,346                 | 12,654  | 11,               |
| Total other partnership interests  | \$ 2,901   | \$ 3,187              | \$ 5,402  | \$ 10,            |
|                                    | =====  | =====                 | =====   | =====             |

Distributions paid to minority interests for the three months ended September 30, 2007 and 2006 were \$5,471,000 and \$3,689,000, respectively, and for the nine months ended September 30, 2007 and 2006 were \$15,828,000 and \$11,037,000, respectively. Minority interests increased \$8,134,000 as a result of the impact of foreign currency translation in the nine months ended September 30, 2007.

24

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

European Joint Ventures  
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## Edgar Filing: Public Storage - Form 10-Q

Through the merger with Shurgard, we acquired an interest in two joint venture entities: First Shurgard SPRI ("First Shurgard") formed in January 2003 and Second Shurgard SPRL ("Second Shurgard") formed in May 2004. Those joint ventures were expected to develop or acquire up to approximately 75 storage facilities in Europe. Through a wholly-owned subsidiary, we have a 20% interest in each of these ventures. We have determined that First Shurgard and Second Shurgard are each VIEs, and that we are the primary beneficiary. Accordingly, First Shurgard and Second Shurgard have been consolidated in our consolidated financial statements. At September 30, 2007, First Shurgard and Second Shurgard had aggregate total assets of \$559.4 million (\$501.0 million at December 31, 2006), total liabilities of \$380.4 million (\$320.9 million at December 31, 2006), and credit facilities collateralized by assets with a net book value of \$481.5 million. At September 30, 2007, First Shurgard's and Second Shurgard's creditors had no recourse to the general credit of Public Storage or Shurgard Europe other than a commitment, to subscribe for up to \$20 million and an additional \$10.7 million as of September 30, 2007 in preferred bonds in order for First Shurgard to fulfill its obligations under its senior credit agreement. We have an option to put 80% of the bonds issued by First Shurgard to Crescent Euro Self Storage Investments, Shurgard Europe's partner in the joint venture.

On September 5, 2006, we informed the joint venture partners of First Shurgard and Second Shurgard of our intention to purchase their interests in First Shurgard and Second Shurgard, pursuant to an "exit procedure" that we believe is provided for in the respective agreements. The exit procedure can, in certain circumstances, result in a third party acquiring the facilities owned by First and Second Shurgard, including our interest in these facilities. Our joint venture partners currently contest whether we have the right to purchase their interests under this procedure. On January 17, 2007, we filed an arbitration action with our joint venture partner related to our intention to terminate the joint venture early. See Note 15 for further discussion of the arbitration proceedings.

### European Investors

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In the second quarter of 2007, one of our European subsidiaries sold limited liability partner interests ("LLP Interests") it held in Shurgard Self-Storage SCA ("Shurgard Europe"), also an indirect subsidiary of Public Storage, to various officers of the Company, other than our chief executive officer. The aggregate proceeds of the sale were \$4,909,000. The sale price for the LLP Interests was the net asset value per LLP Interest using, among other items, information provided by an independent third party appraisal firm of the net asset value of Shurgard Europe as of March 31, 2007. The Company has a right to repurchase the LLP Interests upon (1) upon a purchaser's termination of employment or (2) for any reason, on or after May 14, 2008. The repurchase price is set at the lesser of (1) the then net asset value per share or (2) the original purchase price with a 10% compounded annual return. In connection with the sale of these LLP Interests, we recorded a gain of \$1,193,000 for the nine months ended September 30, 2007, representing the excess of the sales proceeds over the book value of the LLP Interests sold. The gain is reflected in gain on disposition of real estate investments on our accompanying condensed consolidated statements of income. The investment of these various officers is included in minority interest - other partnership interests on our accompanying condensed consolidated balance sheet at September 30, 2007 and their pro rata share of the earnings of Shurgard Europe are reflected in minority interest in income - other partnership interests on our accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2007.



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### Convertible Partnership Units

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At September 30, 2007 and December 31, 2006, one of the Consolidated Entities had approximately 231,978 convertible partnership units ("Convertible Units") outstanding representing a limited partnership interest in the partnership. The Convertible Units are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unit-holder. Minority interest in income with respect to Convertible Units reflects the Convertible Units' share of our net income, with net income allocated to minority interests with respect to weighted average outstanding Convertible Units on a per unit basis equal to diluted earnings per common share.

25

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

### Other Consolidated Partnerships

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The partnership agreements of the Other Consolidated Partnerships included in the table above have termination dates that cannot be unilaterally extended by the Company and, upon termination of each partnership, the net assets of these entities would be liquidated and paid to the minority interests and the Company based upon their relative ownership interests.

In connection with the merger with Shurgard, we obtained partial equity interests in certain joint ventures. Following the merger with Shurgard, in 2006 we acquired the minority interests in certain of these joint ventures, for an aggregate of approximately \$62,300,000 in cash. As a result of these transactions, we obtained the remaining interest in a total of 68 self-storage facilities. This acquisition was recorded as a reduction in minority interest totaling \$12,177,000, with the remainder allocated to real estate (\$50,123,000).

In May 2007 we discontinued the consolidation of certain of these joint ventures due to our losing control of these entities. As a result, minority interest in income with respect to these joint ventures ceased effective May 2007, and \$682,000 in minority interest was eliminated. See Note 2 for further information.

The partnership agreements of the Shurgard Domestic Joint Ventures have termination dates that cannot be unilaterally extended by the Company and, upon termination of each partnership, the net assets of these entities would be liquidated and paid to the minority interests and the Company based upon their relative ownership interests.

At September 30, 2007 and December 31, 2006, the Other Consolidated Partnerships reflect common equity interests that we do not own in 33 entities owning an aggregate of 117 self-storage facilities.

### Impact of SFAS No. 150

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In May 2003, the FASB issued Statement of Financial Accounting

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Standards No. 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). This statement prescribes reporting standards for financial instruments that have characteristics of both liabilities and equity. This standard generally indicates that certain financial instruments that give the issuer a choice of setting an obligation with a variable number of securities or settling an obligation with a transfer of assets, any mandatorily redeemable security, and certain put options and forward purchase contracts, should be classified as a liability on the balance sheet. With the exception of minority interests, described below, we implemented SFAS No. 150 on July 1, 2003, and the adoption had no impact on our financial statements.

The provisions of SFAS No. 150 indicate that the Other Minority Interests would have to be treated as a liability, because these partnerships have termination dates that cannot be unilaterally extended by us and, upon termination, the net assets of these entities would be liquidated and paid to the minority interest and us based upon relative ownership interests. However, on October 29, 2003, the FASB decided to defer indefinitely a portion of the implementation of SFAS No. 150, which thereby deferred our requirement to recognize these minority interest liabilities. We estimate that the fair value of the Other Partnership Interests is approximately \$450 million at December 31, 2006 and September 30, 2007.

26

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

11. Shareholders' Equity

Cumulative Preferred Shares

At September 30, 2007 and December 31, 2006, we had the following series of Cumulative Preferred Shares of beneficial interest outstanding:

| Series                       | Earliest<br>Redemption<br>Date | Dividend<br>Rate | At September 30, 2007 |                    | At Dece               |
|------------------------------|--------------------------------|------------------|-----------------------|--------------------|-----------------------|
|                              |                                |                  | Shares<br>Outstanding | Carrying<br>Amount | Shares<br>Outstanding |
| (Dollar amounts in thousand) |                                |                  |                       |                    |                       |
| Series V                     | 9/30/07                        | 7.500%           | 6,900                 | \$ 172,500         | 6,900                 |
| Series W                     | 10/6/08                        | 6.500%           | 5,300                 | 132,500            | 5,300                 |
| Series X                     | 11/13/08                       | 6.450%           | 4,800                 | 120,000            | 4,800                 |
| Series Y                     | 1/2/09                         | 6.850%           | 1,600,000             | 40,000             | 1,600,000             |
| Series Z                     | 3/5/09                         | 6.250%           | 4,500                 | 112,500            | 4,500                 |
| Series A                     | 3/31/09                        | 6.125%           | 4,600                 | 115,000            | 4,600                 |
| Series B                     | 6/30/09                        | 7.125%           | 4,350                 | 108,750            | 4,350                 |
| Series C                     | 9/13/09                        | 6.600%           | 4,600                 | 115,000            | 4,600                 |
| Series D                     | 2/28/10                        | 6.180%           | 5,400                 | 135,000            | 5,400                 |
| Series E                     | 4/27/10                        | 6.750%           | 5,650                 | 141,250            | 5,650                 |
| Series F                     | 8/23/10                        | 6.450%           | 10,000                | 250,000            | 10,000                |

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|                                   |          |        |           |              |         |
|-----------------------------------|----------|--------|-----------|--------------|---------|
| Series G                          | 12/12/10 | 7.000% | 4,000     | 100,000      | 4,0     |
| Series H                          | 1/19/11  | 6.950% | 4,200     | 105,000      | 4,2     |
| Series I                          | 5/3/11   | 7.250% | 20,700    | 517,500      | 20,7    |
| Series K                          | 8/8/11   | 7.250% | 18,400    | 460,000      | 18,4    |
| Series L                          | 10/20/11 | 6.750% | 9,200     | 230,000      | 9,2     |
| Series M                          | 1/9/12   | 6.625% | 20,000    | 500,000      |         |
| Series N                          | 7/2/12   | 7.000% | 6,900     | 172,500      |         |
| Total Cumulative Preferred Shares |          |        | 1,739,500 | \$ 3,527,500 | 1,712,6 |

The holders of our Cumulative Preferred Shares have general preference rights with respect to liquidation and quarterly distributions. Holders of the preferred shares, except under certain conditions and as noted below, will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends or failure to maintain a Debt Ratio (as defined) of 50% or less, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on the Company's Board until events of default have been cured. At September 30, 2007, there were no dividends in arrears and the Debt Ratio was 8.2%.

Upon issuance of our Cumulative Preferred Shares of beneficial interest, we classify the liquidation value as preferred equity on our condensed consolidated balance sheet with any issuance costs recorded as a reduction to paid-in capital. Upon redemption, we apply EITF Topic D-42, allocating income to the preferred shareholders equal to the original issuance costs.

On January 9, 2007, we issued 20,000 depositary shares, with each depositary share representing 1/1,000 of a share of our 6.625% Cumulative Preferred Shares, Series M. The offering resulted in \$500,000,000 of gross proceeds.

27

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

On July 2, 2007, we issued 6,900,000 depositary shares each representing 1/1,000 of our 7.000% Cumulative Preferred Shares, Series N, for gross proceeds of approximately \$172,500,000.

During 2006, we issued four series of Cumulative Preferred Shares: Series H - issued January 19, 2006, net proceeds totaling \$101,492,000, Series I - issued May 3, 2006, net proceeds totaling \$501,601,000, Series K - issued August 8, 2006, net proceeds totaling \$445,852,000 and Series L - issued October 20, 2006, net proceeds totaling \$223,623,000.

During 2006, we redeemed our Series R and Series S Cumulative Preferred Shares at par value plus accrued dividends. In December 2006, we called for redemption our Series T and Series U Cumulative Preferred Shares, at par. The aggregated redemption value of \$302,150,000 of these two series was classified as a liability at December 31, 2006 and repaid in the nine months ended September 30, 2007.

## Edgar Filing: Public Storage - Form 10-Q

### Equity Shares -----

The Company is authorized to issue 100,000,000 Equity Shares of beneficial interest. The Articles of Amendment and Restatement of Declaration of Trust provide that the Equity Shares may be issued from time to time in one or more series and give our Board broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Shares.

### Equity Shares, Series A -----

At September 30, 2007 and December 31, 2006, we had 8,744,193 depository shares outstanding, each representing 1/1,000 of an Equity Share, Series A ("Equity Shares A"). The Equity Shares A rank on parity with our common shares and junior to the Cumulative Preferred Shares with respect to general preference rights and have a liquidation amount which cannot exceed \$24.50 per share. Distributions with respect to each depository share shall be the lesser of: (i) five times the per share dividend on our common shares or (ii) \$2.45 per annum. We have no obligation to pay distributions on the depository shares if no distributions are paid to common shareholders.

Except in order to preserve the Company's Federal income tax status as a REIT, we may not redeem the depository shares representing the Equity Shares A before March 31, 2010. On or after March 31, 2010, we may, at our option, redeem the depository shares at \$24.50 per depository share. If the Company fails to preserve its Federal income tax status as a REIT, each of the depository shares will be convertible at the option of the shareholder into .956 common shares. The depository shares are otherwise not convertible into common shares. Holders of depository shares vote as a single class with holders of our common shares on shareholder matters, but the depository shares have the equivalent of one-tenth of a vote per depository share.

### Equity Shares, Series AAA -----

In November 1999, we sold \$100,000,000 (4,289,544 shares) of Equity Shares, Series AAA ("Equity Shares AAA") to the Consolidated Development Joint Venture. On November 17, 2005, upon the acquisition of Mr. Hughes' interest in PSAC, we owned 100% of the partnership interest in the Consolidated Development Joint Venture. For all periods presented, the Equity Shares, Series AAA and related dividends are eliminated in consolidation.

### Common Shares -----

During the nine months ended September 30, 2007, we issued 258,413 common shares in connection with employee stock-based compensation.

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consolidate owned 1,146,207 common shares. These shares continue to be legally issued and outstanding. In the consolidation process, these shares and the related balance sheet amounts have been eliminated. In addition, these shares are not included in the computation of weighted average shares outstanding.

### Dividends -----

The following table summarizes dividends declared and paid during the nine months ended September 30, 2007:

|                              | Distributions Per Share<br>or Depositary Share | Total<br>Distributions |
|------------------------------|--|------------------------|
|                              | -----  | -----                  |
| Preferred Shares:            |  |                        |
| Series T.....                | \$0.090  | \$ 548,000             |
| Series U.....                | \$0.259  | 1,557,000              |
| Series V.....                | \$1.406  | 9,703,000              |
| Series W.....                | \$1.219  | 6,459,000              |
| Series X.....                | \$1.209  | 5,805,000              |
| Series Y.....                | \$1.284  | 2,055,000              |
| Series Z.....                | \$1.172  | 5,274,000              |
| Series A.....                | \$1.148  | 5,283,000              |
| Series B.....                | \$1.336  | 5,811,000              |
| Series C.....                | \$1.238  | 5,694,000              |
| Series D.....                | \$1.159  | 6,258,000              |
| Series E.....                | \$1.266  | 7,152,000              |
| Series F.....                | \$1.209  | 12,093,000             |
| Series G.....                | \$1.313  | 5,250,000              |
| Series H.....                | \$1.303  | 5,473,000              |
| Series I.....                | \$1.359  | 28,139,000             |
| Series K.....                | \$1.359  | 25,012,000             |
| Series L.....                | \$1.266  | 11,644,000             |
| Series M.....                | \$1.210  | 24,200,000             |
| Series N.....                | \$0.437  | 3,014,000              |
|                              |  | -----                  |
|                              |  | 176,424,000            |
| Common Shares:               |  |                        |
| Equity Shares, Series A..... | \$1.838  | 16,068,000             |
| Common .....                 | \$1.500  | 255,022,000            |
|                              |  | -----                  |
| Total dividends.....         |  | \$ 447,514,000         |
|                              |  | =====                  |

The dividend rate on our common shares was \$0.50 per common share and \$1.50 per common share for the three and nine months ended September 30, 2007. The dividend rate on the Equity Share A was \$0.6125 per depositary share and \$1.8375 per depositary share for the three and nine months ended September 30, 2007, respectively.

### 12. Segment Information -----

#### Description of Each Reportable Segment -----

Our reportable segments reflect significant operating activities that are evaluated separately by management, comprised of the following segments which are organized based upon their operating characteristics.

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29

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

Our domestic self-storage segment comprises the direct ownership, development, and operation of traditional storage facilities in the U.S., and the ownership of equity interests in entities that own storage properties in the U.S. Our European self-storage segment comprises our self-storage and associated activities owned by affiliated entities based in Europe.

Our domestic ancillary operating segment represents all of our other segments, which are reported as a group, including with respect to our domestic operations (i) containerized storage, (ii) commercial property operations, which reflects our interest in the ownership, operation, and management of commercial properties both directly and through our interest in PSB (iii) the reinsurance of policies against losses to goods stored by tenants in our self-storage facilities, (iv) sale of merchandise at our self-storage facilities, (v) truck rentals at our self-storage facilities and (vi) management of facilities owned by third-party owners and facilities owned by the Unconsolidated Entities.

Measurement of Segment Income (Loss) and Segment Assets -  
-----  
Domestic Self-Storage and Domestic Ancillary  
-----

The domestic self-storage and domestic ancillary segments are evaluated by management based upon the net segment income of each segment. Net segment income represents net income in conformity with GAAP and our significant accounting policies as denoted in Note 2, before interest and other income, interest expense, and corporate general and administrative expense. Interest and other income, interest expense, corporate general and administrative expense, minority interest in income and gains and losses on sales of real estate assets are not allocated to these segments because management does not utilize them to evaluate the results of operations of each segment. In addition, there is no presentation of segment assets for these other segments because total assets are not considered in the evaluation of these segments.

Measurement of Segment Income (Loss) and Segment Assets -  
-----  
European Operations  
-----

The European segment operations are primarily independent of the other segments, with separate management, debt, financing activities, and capital allocation decisions. The operations of our European segment are included in our financial statements effective August 23, 2006 when we completed the merger with Shurgard. Accordingly, this segment is evaluated by management as a stand-alone business unit and the European segment presentation includes all of the revenues, expenses, and operations of this business unit, including interest expense paid to outside parties and general and administrative expense. Assets of our European operations at September 30, 2007, include real estate with a book value of approximately \$1.6 billion (\$1.4 billion at December 31, 2006), intangibles with a book value of approximately \$110 million (\$167 million at December 31, 2006), and other assets with a book value of approximately \$61 million (\$65

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million at December 31, 2006). At September 30, 2007, liabilities of our European operations include; intercompany payables of \$556 million (\$542 million at December 31, 2006), debt of \$360 million (\$724 million at December 31, 2006) and accrued and other liabilities of \$92 million (\$108 million at December 31, 2006). At December 31, 2006, assets of our European operations included approximately \$480 million in cash (of which approximately \$429 million was utilized on January 2, 2007 to prepay the (euro)325M collateralized notes).

### Presentation of Segment Information

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The following table reconciles the performance of each segment, in terms of segment income, to our consolidated net income (amounts in thousands):

30

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

For the three months ended September 30, 2007

|   | Domestic<br>Self-Storage | European<br>Operations | Domestic<br>Ancillary<br>Operations |
|---|--------------------------|------------------------|-------------------------------------|
|   | -----                    | -----                  | -----                               |
|   | (Amounts in thousands)   |                        |                                     |
| <b>Revenues:</b>  |                          |                        |                                     |
| Self-storage rental income.....   | \$ 377,877               | \$ 50,072              | \$ -                                |
| Ancillary operating revenue.....  | -                        | 4,775                  | 32,979                              |
| Interest and other income.....  | -                        | -                      | -                                   |
|   | -----                    | -----                  | -----                               |
|   | 377,877                  | 54,847                 | 32,979                              |
|   | -----                    | -----                  | -----                               |
| <b>Expenses:</b>  |                          |                        |                                     |
| Cost of operations (excluding depreciation and<br>amortization below):  |                          |                        |                                     |
| Self-storage facilities.....  | 121,949                  | 21,422                 | -                                   |
| Ancillary operations.....   | -                        | 1,427                  | 21,260                              |
| Depreciation and amortization.....  | 114,965                  | 31,899                 | 903                                 |
| General and administrative.....   | -                        | 2,193                  | -                                   |
| Interest expense.....   | -                        | 5,917                  | -                                   |
|   | -----                    | -----                  | -----                               |
|   | 236,914                  | 62,858                 | 22,163                              |
|   | -----                    | -----                  | -----                               |
| Income (loss) from continuing operations before<br>equity in earnings of real estate entities,<br>gain on disposition of real estate<br>investments, foreign currency exchange gain,<br>income from derivatives and minority interest<br>in income..... | 140,963                  | (8,011)                | 10,816                              |
| Equity in earnings of real estate entities.....   | 902                      | -                      | -                                   |
| Gain on disposition of real estate investments...   | -                        | -                      | -                                   |

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|   |            |           |           |
|---|------------|-----------|-----------|
| Foreign currency exchange gain.....           | -          | 30,384    | -         |
| Income from derivatives, net.....             | -          | 117       | -         |
| Minority interest in (income) loss.....       | (4,466)    | 1,565     | -         |
|   | -----      | -----     | -----     |
| Income (loss) from continuing operations..... | 137,399    | 24,055    | 10,816    |
| Discontinued operations.....                  | -          | (151)     | -         |
|   | -----      | -----     | -----     |
| Net income (loss).....                        | \$ 137,399 | \$ 23,904 | \$ 10,816 |
|   | =====      | =====     | =====     |

31

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

For the three months ended September 30, 2006

|   | Domestic<br>Self-Storage | European<br>Operations | Domestic<br>Ancillary<br>Operations |
|---|--------------------------|------------------------|-------------------------------------|
|   | -----                    | -----                  | -----                               |
|   | (Amounts in thousands)   |                        |                                     |
| <b>Revenues:</b>  |                          |                        |                                     |
| Self-storage rental income.....   | \$ 311,434               | \$ 17,348              | \$ -                                |
| Ancillary operating revenue.....  | -                        | 1,562                  | 28,265                              |
| Interest and other income.....  | -                        | -                      | -                                   |
|   | -----                    | -----                  | -----                               |
|   | 311,434                  | 18,910                 | 28,265                              |
|   | -----                    | -----                  | -----                               |
| <b>Expenses:</b>  |                          |                        |                                     |
| Cost of operations (excluding depreciation and<br>amortization below):  |                          |                        |                                     |
| Self-storage facilities.....  | 100,582                  | 8,524                  | -                                   |
| Ancillary operations.....   | -                        | 636                    | 17,878                              |
| Depreciation and amortization.....  | 97,634                   | 15,020                 | 809                                 |
| General and administrative.....   | -                        | 4,642                  | -                                   |
| Interest expense.....   | -                        | 3,432                  | -                                   |
|   | -----                    | -----                  | -----                               |
|   | 198,216                  | 32,254                 | 18,687                              |
|   | -----                    | -----                  | -----                               |
| Income (loss) from continuing operations before<br>equity in earnings of real estate entities,<br>gain on disposition of real estate<br>investments, foreign currency exchange loss,<br>income from derivatives and minority interest<br>in income..... | 113,218                  | (13,344)               | 9,578                               |
| Equity in earnings of real estate entities.....   | 600                      | -                      | -                                   |
| Gain on disposition of real estate investments...   | -                        | -                      | -                                   |
| Foreign currency exchange loss.....   | -                        | (172)                  | -                                   |
| Income from derivatives, net.....   | -                        | 32                     | -                                   |
| Minority interest in income.....  | (4,466)                  | 1,279                  | -                                   |



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|   |            |             |          |
|---|------------|-------------|----------|
| Income (loss) from continuing operations..... | 109,352    | (12,205)    | 9,578    |
| Discontinued operations.....                  | -          | (21)        | -        |
| Net income (loss).....                        | \$ 109,352 | \$ (12,226) | \$ 9,578 |

32

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

For the nine months ended September 30, 2007

|  | Domestic<br>Self-Storage | European<br>Operations | Domestic<br>Ancillary<br>Operations |
|--|--------------------------|------------------------|-------------------------------------|
|  |                          |                        | (Amounts in thousands)              |
| <b>Revenues:</b>   |                          |                        |                                     |
| Self-storage rental income.....  | \$ 1,097,655             | \$ 140,291             | \$ -                                |
| Ancillary operating revenue.....   | -                        | 12,878                 | 95,025                              |
| Interest and other income.....   | -                        | -                      | -                                   |
|  | 1,097,655                | 153,169                | 95,025                              |
| <b>Expenses:</b>   |                          |                        |                                     |
| Cost of operations (excluding depreciation and<br>amortization below):   |                          |                        |                                     |
| Self-storage facilities.....   | 374,075                  | 67,582                 | -                                   |
| Ancillary operations.....  | -                        | 4,125                  | 59,294                              |
| Depreciation and amortization.....   | 378,975                  | 110,101                | 2,649                               |
| General and administrative.....  | -                        | 16,922                 | -                                   |
| Interest expense.....  | -                        | 16,247                 | -                                   |
|  | 753,050                  | 214,977                | 61,943                              |
| Income (loss) from continuing operations before<br>equity in earnings of real estate entities,<br>casualty gain, gain on disposition of real<br>estate investments, foreign currency exchange<br>gain, income from derivatives and minority<br>interest in income..... | 344,605                  | (61,808)               | 33,082                              |
| Equity in earnings of real estate entities.....  | 1,947                    | -                      | -                                   |
| Casualty gain.....   | 2,665                    | -                      | -                                   |
| Gain on disposition of real estate investments...  | -                        | -                      | -                                   |
| Foreign currency exchange gain.....  | -                        | 40,977                 | -                                   |
| Income from derivatives, net.....  | -                        | 1,126                  | -                                   |
| Minority interest in (income) loss.....  | (12,677)                 | 7,275                  | -                                   |
| Income (loss) from continuing operations.....  | 336,540                  | (12,430)               | 33,082                              |
| Discontinued operations.....   | -                        | (281)                  | -                                   |

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|                        |            |             |           |
|------------------------|------------|-------------|-----------|
| Net income (loss)..... | \$ 336,540 | \$ (12,711) | \$ 33,082 |
|------------------------|------------|-------------|-----------|

33

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

For the nine months ended September 30, 2006

|  | Domestic<br>Self-Storage | European<br>Operations | Domestic<br>Ancillary<br>Operations |
|--|--------------------------|------------------------|-------------------------------------|
| (Amounts in thousands)   |                          |                        |                                     |
| Revenues:  |                          |                        |                                     |
| Self-storage rental income.....  | \$ 825,013               | \$ 17,348              | \$ -                                |
| Ancillary operating revenue.....   | -                        | 1,562                  | 75,938                              |
| Interest and other income.....   | -                        | -                      | -                                   |
|  | 825,013                  | 18,910                 | 75,938                              |
| Expenses:  |                          |                        |                                     |
| Cost of operations (excluding depreciation and<br>amortization below):   |                          |                        |                                     |
| Self-storage facilities.....   | 277,680                  | 8,524                  | -                                   |
| Ancillary operations.....  | -                        | 636                    | 49,679                              |
| Depreciation and amortization.....   | 194,625                  | 15,020                 | 2,412                               |
| General and administrative.....  | -                        | 4,642                  | -                                   |
| Interest expense.....  | -                        | 3,432                  | -                                   |
|  | 472,305                  | 32,254                 | 52,091                              |
| Income (loss) from continuing operations before<br>equity in earnings of real estate entities,<br>casualty gain, gain on disposition of real<br>estate investments, foreign currency exchange<br>loss, income from derivatives and minority<br>interest in income..... | 352,708                  | (13,344)               | 23,847                              |
| Equity in earnings of real estate entities.....  | 1,574                    | -                      | -                                   |
| Gain on disposition of real estate investments...  | -                        | -                      | -                                   |
| Foreign currency exchange loss.....  | -                        | (172)                  | -                                   |
| Income from derivatives, net.....  | -                        | 32                     | -                                   |
| Minority interest in income.....   | (12,104)                 | 1,279                  | -                                   |
|  | 342,178                  | (12,205)               | 23,847                              |
| Income (loss) from continuing operations.....  | 342,178                  | (12,205)               | 23,847                              |
| Cumulative effect of a change in accounting<br>principle.....  | -                        | -                      | -                                   |
| Discontinued operations.....   | -                        | (21)                   | -                                   |
| Net income (loss).....   | \$ 342,178               | \$ (12,226)            | \$ 23,847                           |

## 13. Share-Based Compensation

## Stock Options

We have various stock option plans (collectively referred to as the "PS Plans"). Under the PS Plans, the Company has granted non-qualified options to certain trustees, officers and key employees to purchase shares of the Company's common stock at a price equal to the fair market value of the common stock at the date of grant. Generally, options under the PS Plans vest over a three-year period from the date of grant at the rate of one-third per year (options granted after December 31, 2002 vest generally over a five-year period) and expire between eight years and ten years after the date they became exercisable. The PS Plans also provide for the grant of restricted stock (see below) to officers, key employees and service providers on terms determined by an authorized committee of our Board.

34

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

We recognize compensation expense for share-based awards based upon their fair value on the date of grant amortized over the applicable vesting period (the "Fair Value Method"), less an allowance for estimated future forfeited awards.

For the three and nine months ended September 30, 2007 we recorded \$695,000 and \$1,301,000, respectively, in stock option compensation expense related to options granted after January 1, 2002, as compared to \$360,000 and \$958,000, for the same periods in 2006.

A total of 240,000 stock options were granted during the nine months ended September 30, 2007, 191,095 shares were exercised, and no shares were forfeited. A total of 1,651,839 stock options were outstanding at September 30, 2007 (1,602,934 at December 31, 2006).

## Restricted Share Units

Outstanding restricted share units vest over a five or eight-year period from the date of grant at the rate of one-fifth or one-eighth per year, respectively. The employee receives additional compensation equal to the per-share dividends received by common shareholders with respect to restricted share units outstanding. Such compensation is accounted for as dividends paid. Any dividends paid on units which are subsequently forfeited are expensed. Upon vesting, the employee receives common shares equal to the number of vested restricted share units in exchange for the units.

The total value of each restricted share unit grant, based upon the market price of our common shares at the date of grant, is amortized over the vesting period as compensation expense. The related employer portion of payroll taxes is expensed as incurred. Until December 31, 2005 (see below), forfeitures were recognized as experienced, reducing

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compensation expense.

Effective January 1, 2006, in accordance with Statement of Financial Accounting Standards No. 123 - revised ("FAS 123R"), we began recording compensation expense net of estimates for future forfeitures (the "Estimated Forfeiture Method"). In addition, we estimated the cumulative compensation expense that would have been recorded through December 31, 2005, had we used the Estimated Forfeiture Method, would have been \$578,000 lower. Accordingly, as prescribed by FAS 123R, we recorded this adjustment as a cumulative effect of change in accounting principal on our accompanying condensed consolidated statement of income for the nine months ended September 30, 2006.

Outstanding restricted share units are included on a one-for-one basis in our diluted weighted average shares, less a reduction for the treasury stock method applied to the average cumulative measured but unrecognized compensation expense during the period. For purposes of the disclosures that follow, "fair value" on any particular date reflects the closing market price of our common shares on that date.

During the nine months ended September 30, 2007, 170,175 restricted share units were granted, 69,992 restricted share units were forfeited, and 100,477 restricted share units vested. This vesting resulted in the issuance of 67,318 shares of the Company's common shares. In addition, cash compensation was paid to employees in lieu of 30,485 common shares based upon the market value of the shares at the date of vesting, and used to settle the employees' tax liability generated by the vesting.

At September 30, 2007, approximately 616,176 restricted share units were outstanding (616,470 at December 31, 2006). A total of \$1,751,000 and \$6,013,000 in restricted share expense was recorded for the three and nine months ended September 30, 2007, respectively, as compared to \$1,200,000 and \$3,629,000, for the same periods in 2006.

35

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

14. Related Party Transactions

Relationships and transactions with the Hughes Family

Mr. Hughes and his family (collectively the "Hughes Family") have ownership interests in, and operate approximately 48 self-storage facilities in Canada under the name "Public Storage" ("PS Canada") pursuant to a license agreement with the Company. We currently do not own any interests in these facilities nor do we own any facilities in Canada. The Hughes Family owns approximately 27% of our common shares outstanding at September 30, 2007. We have a right of first refusal to acquire the stock or assets of the corporation that manages the 48 self-storage facilities in Canada, if the Hughes Family or the corporation agrees to sell them. However, we have no interest in the operations of this corporation, we have no right to acquire this stock or assets unless the Hughes Family decides to sell, the right of first refusal does not apply to the self-storage facilities, and we receive no benefit from the profits and increases in value of the Canadian self-storage facilities.

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Through consolidated entities, we continue to reinsure risks relating to loss of goods stored by tenants in the self-storage facilities in Canada. During the nine months ended September 30, 2007 and 2006, respectively, we received \$666,000 and \$759,000, respectively, in reinsurance premiums attributable to the Canadian facilities. Since our right to provide tenant reinsurance to the Canadian facilities may be qualified, there is no assurance that these premiums will continue.

The Company and Mr. Hughes are co-general partners in certain consolidated entities and affiliated entities of the Company that are not consolidated, and the Hughes Family owns 47.9% of the voting stock of a private REIT in which the Company holds 46% of the voting and 100% of the nonvoting stock of the entity and substantially all the economic interest. The Hughes Family also owns limited partnership interests in certain of these partnerships and holds securities in PSB. The Company and the Hughes Family receive distributions from these entities in accordance with the terms of the partnership agreements or other organizational documents.

### Other Related Party Transactions

-----

Ronald L. Havner, Jr. is our Vice-Chairman and Chief Executive Officer, and he is Chairman of the Board of PSB.

Dann V. Angeloff, a trustee of the Company, is the general partner of a limited partnership formed in June of 1973 that owns a self-storage facility that is managed by us. We recorded management fees with respect to this facility amounting to \$18,000, and \$55,000 for the three and nine months ended September 30, 2007, respectively, compared to \$18,000 and \$49,000 for the three and nine months ended September 30, 2006, respectively.

PSB manages certain of the commercial facilities that we own pursuant to management agreements for a management fee equal to 5% of revenues. We paid a total of \$177,000 and \$542,000 for the three and nine months ended September 30, 2007, respectively, as compared to \$147,000 and \$442,000 for the three and nine months ended September 30, 2006, respectively, in management fees with respect to PSB's property management services. At September 30, 2007, included in other liabilities are normal recurring amounts owed to PSB of \$204,000 (\$871,000 at December 31, 2006), for unpaid management fees and certain other operating expenses related to the managed facilities which are initially paid by PSB on our behalf and then reimbursed by us.

36

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

PSB recently acquired commercial facilities which included self-storage space. We are managing this self-storage space for them for a management fee of 6% of revenues. We recorded management fees with respect to these facilities amounting to \$11,000 and \$35,000 for the three and nine months ended September 30, 2007 (none for the same periods in 2006).

Pursuant to a cost-sharing and administrative services agreement, PSB reimburses us for certain administrative services that we provide to them. PSB's share of these costs totaled approximately \$76,000 and \$228,000

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for the three and nine months ended September 30, 2007, respectively, as compared to \$80,000 and \$240,000 for the three and nine months ended September 30, 2006, respectively.

We manage our wholly-owned self-storage facilities as well as the facilities owned by the Consolidated Entities and affiliated entities that are not consolidated on a joint basis, in order to take advantage of scale and other efficiencies. As a result, significant components of self-storage operating costs, such as payroll costs, advertising and promotion, data processing, and insurance expenses are shared and allocated among the various entities using methodologies meant to fairly allocate such costs based upon the related activities. The amount of such expenses allocated to Unconsolidated Entities was approximately \$599,000 and \$1,895,000 for the three and nine months ended September 30, 2007, respectively, as compared to \$503,000 and \$1,770,000 for the three and nine months ended September 30, 2006, respectively.

Stor-RE, a consolidated entity, and third party insurance carriers provided PS Canada, the Company, PSB, and other affiliates of the Company with liability and casualty insurance coverage until March 31, 2004. PS Canada owns a 2.2% interest and PSB owns a 4.0% interest in Stor-RE. PS Canada and PSB obtained their own liability and casualty insurance covering occurrences after April 1, 2004. For occurrences before April 1, 2004, Stor-Re continues to provide liability and casualty insurance coverage consistent with the relevant agreements.

On May 14, 2007, one of our European subsidiaries sold limited liability partner interests ("LLP Interests") it held in Shurgard Europe, also an indirect subsidiary of Public Storage, to various officers of the Company, other than our chief executive officer. The aggregate proceeds of the sale were \$4,909,000. The sale price for the LLP Interests was the net asset value per LLP Interest using, among other items, information provided by an independent third party appraisal firm of the net asset value of Shurgard Europe as of March 31, 2007. The Company has a right to repurchase the LLP Interests (1) upon a purchaser's termination of employment or (2) for any reason, on or after May 14, 2008. The repurchase price is set at the lesser of (1) the then net asset value per share or (2) the original purchase price with a 10% compounded annual return. In connection with the sale of these LLP Interests, we recorded a gain of \$1,193,000 during the three months ended June 30, 2007, representing the excess of the sales proceeds over the book value of the LLP Interests sold. The gain is reflected in gain on disposition of real estate investments on our accompanying condensed consolidated statements of income. The investment of these various officers is included in minority interest - other partnership interests on our accompanying condensed consolidated balance sheet at September 30, 2007 and their pro rata share of the earnings of Shurgard Europe are reflected in minority interest in income - other partnership interests on our accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2007.

### 15. Commitments and Contingencies

#### Legal Matters

Serrao v. Public Storage, Inc. (filed April 2003) (Superior Court  
of California - Orange County)

The plaintiff in this case filed a suit against the Company on

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behalf of a putative class of renters who rented self-storage units from the Company. Plaintiff alleges that the Company misrepresented the size of

37

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

its storage units, has brought claims under California statutory and common law relating to consumer protection, fraud, unfair competition, and negligent misrepresentation, and is seeking monetary damages, restitution, and declaratory and injunctive relief.

Based upon the uncertainty inherent in any putative class action, we cannot presently determine the potential damages, if any, or the ultimate outcome of this litigation. On November 3, 2003, the court granted our motion to strike the plaintiff's nationwide class allegations and to limit any putative class to California residents only. In August 2005, we filed a motion to remove the case to federal court, but the case has been remanded to the Superior Court. We are vigorously contesting the claims upon which this lawsuit is based, including class certification efforts.

Drake v. Shurgard Storage Centers, Inc. (filed September 2002)

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(Superior Court of California - Orange County)  
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This is a companion case to the Serrao matter discussed above. The plaintiff alleges the same set of operative facts and seeks the same relief as in Serrao against Shurgard, whose liability Public Storage assumed following the merger of Public Storage and Shurgard on August 22, 2006. In June 2007, the Court certified a class of all Shurgard renters who rented a storage unit at a Shurgard facility in California that was smaller than represented. The maximum potential liability cannot presently be estimated. We intend to vigorously contest the substantive merits of the class certification while seeking an appellate writ challenging the Court's certifications of the class.

Potter, et al v. Hughes, et al (filed December 2004) (United

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States District Court - Central District of California)  
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In November 2002, a shareholder of the Company made a demand on our Board challenging the fairness of the Company's acquisition of PS Insurance Company, Ltd. ("PSIC") and related matters. PSIC was previously owned by the Hughes Family. In June 2003, following the filing by the Hughes Family of a complaint for declaratory relief asking the court to find that the acquisition of PSIC and related matters were fair to the Company, it was ruled that the PSIC transaction was just and reasonable as to the Company and holding that the Hughes Family was not required to make any payment to the Company.

At the end of December 2004, the same shareholder referred to above and a second shareholder filed this shareholder's derivative complaint naming as defendants the Company's directors (and two former directors) and certain officers of the Company. The matters alleged in this complaint relate to PSIC, the Hughes Family's Canadian self-storage operations and the Company's 1995 reorganization. In July 2006, the Court

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granted the defendants' motion to dismiss the amended Complaint without leave to amend. In August 2006, Plaintiffs filed a notice of appeal of the Court's decision. The appeal is currently pending. We believe the litigation will not have any financially adverse effect on the Company (other than the costs and other expenses relating to the lawsuit).

Brinkley v. Public Storage, Inc. (filed April 2005) (Superior

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Court of California - Los Angeles County)  
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The plaintiff sued the Company on behalf of a purported class of California non-exempt employees based on various California wage and hour laws and seeking monetary damages and injunctive relief. In May 2006, a motion for class certification was filed seeking to certify five subclasses. Plaintiff sought certification for alleged meal period violations, rest period violations, failure to pay for travel time, failure to pay for mileage reimbursement, and for wage statement violations. In

38

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

October 2006, the Court declined to certify three out of the five subclasses. The Court did, however, certify subclasses based on alleged meal period and wage statement violations. Subsequently, the Company filed a motion for summary judgment seeking to dismiss the matter in its entirety. On June 22, 2007, the Court granted the Company's summary judgment motion as to the causes of action relating to the subclasses certified and dismissed those claims. The only surviving claims are those relating to the named plaintiff only. The plaintiff has filed an appeal to the Court's June 22, 2007 summary judgment ruling.

Simas v. Public Storage, Inc. (filed January 2006) (Superior

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Court of California - Orange County)  
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The plaintiff brought this action against the Company on behalf of a purported class who bought insurance coverage at the Company's facilities alleging that the Company does not have a license to offer, sell and/or transact storage insurance. The action was originally brought under California Business and Professions Code Section 17200 and seeks retention, monetary damages and injunctive relief. The Company filed a demurrer to the complaint. While the demurrer was pending, the plaintiff amended the complaint to allege a national class and claims for unfair business practices, unjust enrichment, money had and received, and negligent and intentional misrepresentation. Ultimately all claims except for unjust enrichment were dismissed. A subsequent demurrer was filed and sustained without leave to amend. The case was therefore dismissed. The plaintiff has appealed the trial court's ruling.

European Joint Venture Arbitration Proceeding  
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The Company holds indirectly a 20% interest in each of two joint ventures in Europe, First Shurgard and Second Shurgard, that collectively



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own 66 self-storage properties in Europe. On August 24, 2006, the Company, through its affiliate, Shurgard Europe, served an exit notice on the European joint venture partners informing them of its intention to purchase their interests in First Shurgard and Second Shurgard pursuant to an early exit procedure that the Company believes is provided for in the respective joint venture agreements. The exit notice offered to pay the joint venture partners an amount for their interests in accordance with the provisions of the joint venture agreements. The joint ventures partners have contested both the valuation of their interests and whether the Company has the right to purchase its interests under this early exit procedure. Accordingly, it is uncertain as to whether the Company will acquire such interests pursuant to the early exit notice served. On January 17, 2007, Shurgard Europe filed an arbitration request with the International Chamber of Commerce to compel arbitration of the matter. The arbitration proceedings are ongoing.

### Other Items

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We are a party to various claims, complaints, and other legal actions that have arisen in the normal course of business from time to time that are not described above. We believe that it is unlikely that the outcome of these other pending legal proceedings including employment and tenant claims, in the aggregate, will have a material adverse impact upon our operations or financial position.

### Insurance and Loss Exposure

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We have historically carried comprehensive insurance, including property, earthquake, general liability and workers compensation, through nationally recognized insurance carriers and through our captive insurance programs. Our insurance programs also insure affiliates of the Company. Our estimated maximum annual exposure for losses that are below the deductibles set forth in the third-party insurance contracts, assuming multiple significant events occur, is approximately \$37 million. In addition, if losses exhaust the third-party insurers' limit of coverage of \$75 million for property coverage including earthquake coverage ((euro)25 million for Europe) and \$102 million for general liability, our exposure could be greater. These limits are higher than estimates of maximum probable losses that could occur from individual catastrophic events (i.e. earthquake and wind damage) determined in recent engineering and actuarial studies.

39

PUBLIC STORAGE  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

Our tenant insurance program reinsures policies against claims for losses to goods stored by tenants at our self-storage facilities. We have third-party insurance coverage for claims paid exceeding \$1,500,000 resulting from any individual event, to a limit of \$9,000,000. At September 30, 2007, we had approximately 481,000 reinsured policies outstanding representing aggregate coverage of approximately \$1.2 billion.

### Development and Acquisition of Real Estate Facilities

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We currently have 55 projects in our development pipeline, consisting of newly developed self-storage facilities, expansions and

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enhancements to existing self-storage facilities. The total estimated cost of these facilities is approximately \$295 million of which \$103,657,000 has been spent at September 30, 2007. These projects are subject to contingencies. We expect to incur these expenditures over the next 12 - 24 months.

### Operating Lease Obligations

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We lease trucks, land, equipment and office space. At September 30, 2007, the future minimum rental payments required under our operating leases for the years ending December 31, principally representing amounts payable under land leases for our European subsidiaries, are as follows (amounts in thousands):

|                          |            |
|--------------------------|------------|
| 2007 (remainder of)..... | \$ 7,318   |
| 2008.....                | 19,257     |
| 2009.....                | 15,817     |
| 2010.....                | 12,083     |
| 2011.....                | 10,774     |
| Thereafter.....          | 205,398    |
|                          | -----      |
|                          | \$ 270,647 |
|                          | =====      |

We lease trucks, land, equipment and office space under various operating leases. Certain leases are cancelable with substantial penalties. Certain of our European land operating leases have indefinite terms or extension options exercisable at the discretion of the lessee. For such land leases we have disclosed operating lease obligations over the estimated useful life of the related property.

Expenses under operating leases were approximately \$7,397,000 and \$22,168,000 for the three and nine months ended September 30, 2007, respectively, as compared to \$7,482,000 and \$12,052,000 for the three and nine months ended September 30, 2006, respectively. Certain of our land leases include escalation clauses, and we recognize related lease expenses on a straight-line basis.

### 16. Income Taxes

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For all taxable years subsequent to 1980, the Company qualified and we intend to continue to qualify the Company as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, we do not incur federal or significant state tax on that portion of our taxable income which is distributed to our shareholders, provided that we meet certain tests. We believe we will meet these tests during 2007 and, accordingly, no provision for income taxes has been made in the accompanying condensed consolidated financial statements on income produced and distributed on real estate rental operations.

Domestic operations other than rental real estate are primarily conducted through taxable REIT subsidiaries. Income of our taxable REIT subsidiaries is subject to federal, state and local income taxes. We are subject to the income tax provisions of the various European countries in which we have rental real estate operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(Unaudited)

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statement in accordance with FASB Statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our evaluation was performed for the tax years ended December 31, 2003, 2004, 2005, 2006 and the first three quarters of 2007.

We may from time to time be assessed interest or penalties by certain tax jurisdictions, although any such assessments have historically been minimal and immaterial to our financial results. In the event we have received an assessment for interest and/or penalties, it has been classified in the financial statements as general and administrative expense.

41

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

**Forward Looking Statements:** 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 made pursuant to the safe-harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These forward-looking statements involve known and unknown risks and uncertainties, which may cause Public Storage's actual results and performance to be materially different from those expressed or implied in the forward-looking statements. As a result, you should not rely on these forward-looking statements as predictions of future events.

Factors and risks that may impact future results and performance include, but are not limited to, those described in Item 1A, "Risk Factors" in the Public Storage, Inc. Annual Report on Form 10-K for the year ended December 31, 2006 and in our other filings with the Securities and Exchange Commission. These risks include the following: changes in general economic conditions and in the markets in which we operate; the impact of competition from new and existing storage and commercial facilities and other storage alternatives; difficulties in our ability to successfully evaluate, finance and integrate acquired and developed properties into our existing operations; risks associated with international operations; the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing REITs; difficulties in raising capital at reasonable rates;

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delays in the development process; and economic uncertainty due to the impact of war or terrorism.

We caution you not to place undue reliance on forward-looking statements, which speak only as 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 assume no 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 this document, except where expressly required by law.

### CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of our financial statements and related disclosures in conformity with GAAP and our discussion and analysis of our financial condition and results of operations requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Note 2 to our condensed consolidated financial statements summarizes the significant accounting policies and methods used in the preparation of our condensed consolidated financial statements and related disclosures.

Management believes the following are critical accounting policies whose application has a material impact on the Company's financial presentation. That is, they are both important to the portrayal of our financial condition and results, and they require management to make judgments and estimates about matters that are inherently uncertain.

**QUALIFICATION AS A REIT - INCOME TAX EXPENSE:** We believe that we have been organized and operated, and we intend to continue to operate, as a qualifying Real Estate Investment Trust ("REIT") under the Internal Revenue Code and applicable state laws. We also believe that Shurgard qualified as a REIT. A qualifying REIT generally does not pay corporate level income taxes on its taxable income that is distributed to its shareholders, and accordingly, we do not pay income tax on the share of our taxable income that is distributed to our shareholders.

We therefore do not estimate or accrue any federal income tax expense for income earned and distributed related to REIT operations. This estimate could be

incorrect, because due to the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in our circumstances, we cannot be assured that we actually have satisfied or will satisfy the requirements for taxation as a REIT for any particular taxable year. For any taxable year that we fail or have failed to qualify as a REIT and applicable relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income, whether or not we made or make any distributions to our shareholders. Any resulting requirement to pay corporate income tax, including any applicable penalties or interest, could have a material adverse impact on our financial condition or results of operations. Unless entitled to relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. There can be no assurance that we would be entitled to any statutory relief. In addition, if Shurgard failed to qualify as a REIT, we generally would have

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succeeded to or incurred significant tax liabilities.

**IMPAIRMENT OF LONG-LIVED ASSETS:** Substantially all of our assets consist of long-lived assets, including real estate and other intangible assets. The evaluation of our long-lived assets for impairment includes determining whether indicators of impairment exist, which is a subjective process. When any indicators of impairment are found, the evaluation of such long-lived assets then entails projections of future operating cash flows, which also involves significant judgment. Future events, or facts and circumstances that currently exist, that we have not yet identified, could cause us to conclude in the future that our long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

**ESTIMATED USEFUL LIVES OF LONG-LIVED ASSETS:** Substantially all of our assets consist of depreciable, long-lived assets. We record depreciation expense with respect to these assets based upon their estimated useful lives. Any change in the estimated useful lives of those assets, caused by functional or economic obsolescence or other factors, could have a material adverse impact on our financial condition or results of operations.

**ESTIMATED LEVEL OF RETAINED RISK AND UNPAID TENANT CLAIM LIABILITIES:** As described in Notes 2 and 15 to our condensed consolidated financial statements, we retain certain risks with respect to property perils, legal liability, and other such risks. In addition, a wholly-owned subsidiary of the Company reinsures policies against claims for losses to goods stored by tenants in our self-storage facilities. In connection with these risks, we accrue losses based upon the estimated level of losses incurred using certain actuarial assumptions followed in the insurance industry and based on recommendations from an independent actuary that is a member of the American Academy of Actuaries. While we believe that the amounts of the accrued losses are adequate, the ultimate liability may be in excess of or less than the amounts recorded. At September 30, 2007, we had approximately 481,000 reinsured policies in the United States outstanding representing aggregate coverage of approximately \$1.2 billion.

**ACCRUALS FOR CONTINGENCIES:** We are exposed to business and legal liability risks with respect to events that have occurred, but in accordance with GAAP, we have not accrued for such potential liabilities because the loss is either not probable or not estimable or because we are not aware of the event. Future events and the result of pending litigation could result in such potential losses becoming probable and estimable, which could have a material adverse impact on our financial condition or results of operations. Some of these potential losses, of which we are aware, are described in Note 15 to our condensed consolidated financial statements.

**ACCRUALS FOR OPERATING EXPENSES:** We accrue for property tax expense and certain other operating expenses based upon estimates and historical trends and current and anticipated local and state government rules and regulations. If these estimates and assumptions are incorrect, our expenses could be misstated. Cost of operations, interest expense, general and administrative expense, as well as television, yellow page, and other advertising expenditures are expensed as incurred.

**VALUATION OF DERIVATIVES:** As described in our Significant Accounting Policies in Note 2 to our condensed consolidated financial statements, our derivative instruments are not considered effective hedges. Accordingly, any changes in value of these derivatives are reflected as an increase or decrease in net income. The determination of the value of derivatives is based upon significant judgment and assumptions including interest rates, currency rates, and expected rates of return. The actual value of derivative instruments is dependent upon many factors that our judgments and assumptions may not consider, or may not consider effectively.

EUROPEAN NET OPERATING LOSSES - INCOME TAX TREATMENT: The Shurgard European real estate operations generated significant operating losses from inception to the date of our merger with Shurgard. We recorded a deferred tax asset arising from the net operating loss carryforward as of the date of acquisition, and concluded that a valuation allowance was required for the net amount of the deferred tax asset. To the extent that we determine the valuation allowance is no longer required, the change in the valuation allowance will first be treated as a reduction of goodwill and other intangible assets related to the Shurgard merger before being treated as a reduction to the provision for income taxes.

VALUATION OF ASSETS AND LIABILITIES ACQUIRED IN THE MERGER WITH SHURGARD: In recording the merger with Shurgard, we have estimated the fair market value of real estate, intangible assets, debt, and the other assets and other liabilities of Shurgard that we acquired. In addition, we have estimated the fair market value of the 38.9 million shares that we issued to the Shurgard shareholders. These value estimates are based upon many assumptions, including interest rates, market values of land and buildings in the United States and Europe, estimated future cash flows from the tenant base in place, and the recoverability of certain assets. While we believe that the assumptions we used are reasonable, these assumptions are subject to a significant degree of judgment, and others could come to materially different conclusions as to value. If these assumptions were computed differently, our depreciation and amortization expense, interest expense, real estate, debt, and intangible assets could be materially different.

#### RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007:

Net income for the three months ended September 30, 2007 was \$152,766,000 compared to \$81,181,000 for the same period in 2006, representing an increase of \$71,585,000. This increase in net income is primarily due to a foreign currency exchange gain, reduction in general and administrative expense and improved operations from our real estate facilities. These factors were partially offset by increased depreciation and amortization expense.

Comparisons of our revenues, expenses, and weighted average shares outstanding are significantly impacted by the merger with Shurgard, which closed on August 23, 2006. The operating results with respect to the assets and liabilities acquired in the merger with Shurgard are included in our operating results from August 23, 2006 through September 30, 2006 during the quarter ended September 30, 2006, as compared to the entire quarter ended September 30, 2007.

During the quarter ended September 30, 2007, we recognized a foreign currency exchange gain of \$30.4 million relating to intercompany loans between our U.S. and European subsidiaries. The gain was the result of the continued weakening of the US Dollar relative to the Euro during the quarter. See "Foreign Exchange Gain" below for further information.

General and administrative expense declined \$24.8 million in the quarter ended September 30, 2007 as compared to the same period in 2006. This decline was primarily due to the reduction in integration expenses associated with the Shurgard merger, contract termination costs, and development costs that were expensed with respect to terminated projects; these expenses aggregated \$29.6 million in the quarter ended September 30, 2006 as compared to \$1.4 million for the same period in 2007.

Our Same Store net operating income, before depreciation expense, increased

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by approximately \$2,901,000 to \$161,374,000, or 1.8%, as a result of a 1.7% improvement in revenues partially offset by a 1.5% increase in cost of operations. Aggregate net operating income for our newly developed, recently expanded and acquired facilities (other than the Shurgard facilities) increased by approximately \$4,368,000 to \$30,208,000 compared to the same period in 2006. This increase was largely due to the impact of facilities acquired in 2005, 2006 and 2007, combined with continued fill-up of our newly developed and expansion facilities.

44

For those facilities that were acquired in the Shurgard merger, net operating income was approximately \$92,996,000 for the quarter ended September 30, 2007 as compared to \$35,363,000 (which reflects the operations of these facilities from August 23, 2006 through September 30, 2006) for the same period in 2006.

Depreciation and amortization expense for the quarter ended September 30, 2007 increased by \$34.3 million, as compared to the same period in 2006. This increase is primarily due to increased depreciation and amortization expense with respect to the buildings and intangible assets acquired in the merger with Shurgard.

For the three months ended September 30, 2007, net income allocable to our common shareholders (after allocating net income to our preferred and equity shareholders) was \$87,077,000 or \$0.51 per common share on a diluted basis compared to a net loss of \$6,083,000 or \$0.04 per common share on a diluted basis for the same period in 2006, representing an increase of \$93,160,000 or \$0.55 per diluted common share. The increase in net income allocable to common shareholders on an aggregate and per-share basis is due primarily to the impact of the factors described above, combined with a decrease in income allocated to preferred shareholders, as described below.

For the three months ended September 30, 2007 and 2006, we allocated \$60,333,000 and \$60,265,000 of our net income, respectively, to our preferred shareholders based on distributions paid. The year-over-year increase is due to the issuance of additional preferred securities, partially offset by the redemption of preferred securities that had higher dividend rates than the newly issued preferred securities. In 2006, we also recorded allocations of income to our preferred shareholders with respect to the application of EITF Topic D-42, totaling \$21,643,000 (or \$0.15 per diluted common share) for the three months ended September 30, 2006 in connection with the redemption of preferred securities.

Weighted average diluted shares increased to 170,085,000 for the three months ended September 30, 2007 from 145,387,000 for the three months ended September 30, 2006. The increase in weighted average diluted shares is due primarily to the impact of the issuance of 38.9 million shares in connection with our merger with Shurgard, with approximately 16.7 million of such shares being included in our operating results for the quarter ended September 30, 2006 (representing the weighted average outstanding of such shares from August 23, 2006 through September 30, 2006). The increase also includes the weighted average impact of the exercise of approximately 1.8 million stock options issued in connection with the merger with Shurgard principally during the quarter ended September 30, 2006.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007:

Net income for the nine months ended September 30, 2007 was \$289,648,000 compared to \$324,259,000 for the same period in 2006, representing a decrease of \$34,611,000. This decrease is primarily due to a \$279.7 million increase in

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depreciation and amortization expense, due primarily to depreciation and amortization with respect to the buildings and intangibles acquired in the merger with Shurgard. Increased depreciation and amortization expense was partially offset by a foreign currency exchange gain of \$41.0 million and improved operations from our real estate facilities.

Comparisons of our revenues, expenses, and weighted average shares outstanding are significantly impacted by the merger with Shurgard, which closed on August 23, 2006. The results with respect to the assets and liabilities acquired in the merger with Shurgard are included in our operating results from August 23, 2006 through September 30, 2006 during the nine months ended September 30, 2006, as compared to the entire nine months ended September 30, 2007.

During the nine months ended September 30, 2007, we recognized a foreign currency exchange gain aggregating \$41.0 million relating to intercompany loans between our U.S. and European subsidiaries. The gain was the result of the continued weakening of the US Dollar relative to the Euro during the nine month period ended September 30, 2007. See "Foreign Exchange Gain" below for further information.

Same Store net operating income, before depreciation expense, increased by \$9,479,000 to \$461,150,000, or 2.1%, as a result of a 2.1% improvement in

45

revenues partially offset by a 2.1% increase in cost of operations. Aggregate net operating income for our newly developed, recently expanded and acquired self-storage facilities (excluding the Shurgard facilities) increased by approximately \$12,090,000 to \$81,213,000.

For those facilities that were acquired in the Shurgard merger, net operating income was approximately \$253,926,000 for the nine months ended September 30, 2007, as compared to \$35,363,000 (which reflects the operations of these facilities from August 23, 2006 through September 30, 2006) for the same period in 2006.

Net income allocable to our common shareholders (after allocating net income to our preferred and equity shareholders) was \$97,156,000 or \$0.57 per common share on a diluted basis for the nine months ended September 30, 2007 compared to \$127,292,000 or \$0.94 per common share on a diluted basis for the same period in 2006, representing a decrease of \$0.37 per common share, or 39.4%. The decrease in net income allocable to common shareholders and earnings per common diluted share are due primarily to the impact of the factors described above, partially offset by a decrease in income allocated to preferred shareholders, as described below.

For the nine months ended September 30, 2007 and 2006, we allocated \$176,424,000 and \$159,256,000 of our net income, respectively, to our preferred shareholders based on distributions paid. The year-over-year increase is due to the issuance of additional preferred securities, partially offset by the redemption of preferred securities that had higher dividend rates than the newly preferred securities issued. In 2006, we also recorded allocations of income to our preferred shareholders with respect to the application of EITF Topic D-42, totaling \$21,643,000 (or \$0.16 per diluted common share) for the nine months ended September 30, 2006 in connection with the redemption of preferred securities.

Weighted average diluted shares increased to 170,166,000 for the nine months ended September 30, 2007 from 134,851,000 for the nine months ended September 30, 2006. The increase in weighted average diluted shares is due



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primarily to the impact of the issuance of 38.9 million shares in connection with our merger with Shurgard, with approximately 5.6 million of such shares being included in our operating results for the quarter ended September 30, 2006 (representing the weighted average outstanding of such shares from August 23, 2006 through September 30, 2006) and all such shares included in our weighted average shares for the same period in 2007. The increase also includes the weighted average impact of the exercise of approximately 1.8 million stock options issued in connection with the merger with Shurgard principally during the quarter ended September 30, 2006.

### REAL ESTATE OPERATIONS

**DOMESTIC SELF-STORAGE OPERATIONS:** Our domestic self-storage operations are by far the largest component of our operating activities, representing approximately 81% of our total revenues generated for each of the three and nine month periods ended September 30, 2007. Rental income with respect to our domestic self-storage operations has grown from \$311 million and \$825 million for the three and nine months ended September 30, 2006, respectively, to \$378 million and \$1,098 million for the three and nine months ended September 30, 2007, respectively, representing increases of \$67 million, or approximately 22% for the three months ended September 30, 2007 and \$273 million, or approximately 33% for the nine months ended September 30, 2007. The year-over-year improvements in rental income are due to improvements in the performance of those facilities that we owned prior to January 1, 2005 (our "Same Store" facilities), and the addition of new facilities to our portfolio, either through our acquisition or development activities.

46

To enhance year-over-year comparisons, the following table summarizes, and the ensuing discussion describes the operating results of these three groups, our Same Store group, acquisition facilities and development facilities.

| Domestic Self - Storage Operations Summary:                     | Three Months Ended |            |                      | Nin   |
|---|--------------------|------------|----------------------|-------|
| -----   | September 30,      |            |                      | Sep   |
|   | 2007               | 2006       | Percentage<br>Change | 200   |
| -----   | -----              | -----      | -----                | ----- |
| (Dollar amounts in thousands)                                   |                    |            |                      |       |
| Rental income:  |                    |            |                      |       |
| Same Store Facilities - Public Storage.....                     | \$ 237,434         | \$ 233,420 | 1.7                  | \$ 69 |
| Same Store Facilities - Shurgard.....                           | 69,313             | 27,876     | 148.6%               | 20    |
| Other Facilities.....   | 71,130             | 50,138     | 41.9%                | 20    |
|   | -----              | -----      | ----                 | ----- |
| Total rental income.....  | 377,877            | 311,434    | 21.3%                | 1,09  |
|   | -----              | -----      | ----                 | ----- |
| Cost of operations before depreciation and<br>amortization (a): |                    |            |                      |       |
| Same Store Facilities - Public Storage.....                     | 76,060             | 74,947     | 1.5%                 | 232   |
| Same Store Facilities - Shurgard.....                           | 21,818             | 8,516      | 156.2%               | 67    |
| Other Facilities.....   | 24,071             | 17,119     | 40.6%                | 74    |
|   | -----              | -----      | ----                 | ----- |
| Total cost of operations.....                                   | 121,949            | 100,582    | 21.2%                | 374   |
|   | -----              | -----      | ----                 | ----- |
| Net operating income before depreciation and                    |                    |            |                      |       |

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|   |                     |                     |                |                 |
|---|---------------------|---------------------|----------------|-----------------|
| amortization(a):  |                     |                     |                |                 |
| Same Store Facilities - Public Storage.....                                 | 161,374             | 158,473             | 1.8%           | 461             |
| Same Store Facilities - Shurgard.....                                       | 47,495              | 19,360              | 145.3%         | 133             |
| Other Facilities.....   | 47,059              | 33,019              | 42.5%          | 128             |
| Total net operating income before<br>depreciation and amortization (a)..... | -----<br>255,928    | -----<br>210,852    | -----<br>21.4% | -----<br>723    |
| Depreciation and amortization expense:                                      |                     |                     |                |                 |
| Same Store Facilities - Public Storage.....                                 | (40,553)            | (41,294)            | (1.8)%         | (121)           |
| Same Store Facilities - Shurgard.....                                       | (44,595)            | (35,304)            | 26.3%          | (161)           |
| Other Facilities.....   | (29,817)            | (21,036)            | 41.7%          | (95)            |
| Total depreciation and amortization expense.                                | -----<br>(114,965)  | -----<br>(97,634)   | -----<br>17.8% | -----<br>(378)  |
| Net operating income (loss):  |                     |                     |                |                 |
| Same Store Facilities - Public Storage.....                                 | 120,821             | 117,179             | 3.1%           | 339             |
| Same Store Facilities - Shurgard.....                                       | 2,900               | (15,944)            | (118.2)%       | (28)            |
| Other Facilities.....   | 17,242              | 11,983              | 43.9%          | 33              |
| Total net operating income.....   | -----<br>\$ 140,963 | -----<br>\$ 113,218 | -----<br>24.5  | -----<br>\$ 344 |
| Weighted average square foot occupancy during<br>the period.....            |                     |                     |                |                 |
|   | 89.2%               | 88.4%               | 0.9%           | 8               |
| Number of self-storage facilities (at end of<br>period).....                |                     |                     |                |                 |
|   |                     |                     |                | 1               |
| Net rentable square feet (in thousands, at end<br>of period):.....          |                     |                     |                |                 |
|   |                     |                     |                | 124             |

(a) Total net operating income before depreciation and amortization or "NOI" is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation and amortization expense. See Note 12 to our September 30, 2007 condensed consolidated financial statements, "Segment Information," which includes a reconciliation of net operating income before depreciation and amortization for this segment to our consolidated net income. Although depreciation and amortization are operating expenses, 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, segment performance, and comparing period-to-period and market-to-market property operating results. NOI is not a substitute for net operating income after depreciation and amortization in evaluating our operating results.

47

In the discussion that follows, we present realized annual rent per occupied square foot, which is computed by dividing rental income, before late charges and administrative fees, by the weighted average occupied square footage for the period. We also present annualized rental income per available square foot ("REVPAF"), which represents annualized rental income, before late charges and administrative fees, divided by total available net rentable square feet. Late charges and administrative fees are excluded to more effectively measure our ongoing level of revenue associated with the leasing of the units.

In the above table, the significant increases in revenues and cost of operations, in the three and nine months ended September 30, 2007 as compared to the same periods in 2006, are primarily due to the acquisition of self-storage facilities in connection with the merger with Shurgard which was completed on August 23, 2006 (see Note 3 to the condensed consolidated financial statements). As a result of the merger, we acquired interests in 487 self-storage facilities

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(32.3 million net rentable square feet) located in the United States, including 459 wholly-owned facilities and 28 facilities owned by joint ventures in which we have an interest. Effective May 24, 2007, due to a loss in control of certain partnerships, we began deconsolidating 11 of these facilities containing 624,000 net rentable square feet. Included in the line item "Other Facilities" in the table above is the operating data with respect to these 11 facilities from August 23, 2006 through May 24, 2007. The operating results of all of the other facilities acquired in the merger and located in the United States are included in our financial statements and in the above table for the period we owned the facilities.

Immediately preceding the close of the merger, all of the acquired facilities in the United States were integrated into our property management systems, centralized pricing systems, national call center, and website. Temporary signage, re-branding the facilities from "Shurgard" to "Public Storage", was also put into place immediately after the close of the merger.

Our property management personnel worked diligently to absorb this large acquisition of facilities. Training and hiring new property managers were key elements for the successful integration process. New employees needed to be trained on how to use our property management systems and follow our operating policies and procedures. As expected in a merger of this nature, immediately following the close of the merger, turnover at the property manager level was higher than we normally experience. In anticipation of such turnover, we began to hire additional "bench" property managers in the second quarter of 2006 to fill openings when turnover occurred. Although this strategy was effective at keeping properties opened for business, it did result in incurring additional payroll costs in the second, third and fourth quarters of 2006 due to the additional head count.

As a result of the merger, the amount of vacant space increased significantly in our system. The acquired Shurgard portfolio of 487 facilities in the United States had aggregate average square foot occupancy of 84.4% at August 31, 2006, which was 530 basis points below the 89.7% for the existing Public Storage portfolio. Average rental rates were approximately the same for each of the portfolios. Our goal has been to increase our overall portfolio occupancy in order to be in a position to drive rental rates. The primary focus in meeting our goal has been to work to improve the Shurgard portfolio's overall occupancy level to the occupancy level experienced by our existing portfolio.

In order to increase move-in volumes and ultimately increase occupancy levels as quickly as possible, and because there is typically low seasonal demand in the fourth and first quarters, we were much more aggressive at reducing our pricing, and increasing promotional discounts and marketing programs during the fourth quarter of 2006 and continued doing so during the first nine months of 2007. We have substantially increased our media advertising expenditures to \$5.2 million and \$21.8 million for the three and nine months ended September 30, 2007 as compared to \$1.6 million and \$10.2 million, respectively, in the same periods in 2006.

We have made significant progress in improving the occupancy level of the Shurgard portfolio. However, this improvement has come somewhat at the expense of in a reduction in the Public Storage Same Store Facilities' occupancies and reduced growth in rates. We believe that the more aggressive pricing and discounting at the Shurgard properties, combined with the fact that the Shurgard properties have relatively more vacant spaces to rent, has resulted in shifting of new tenant flow not only from our competitors, but also from our existing portfolio to the Shurgard properties during the past nine months, putting some pressure on occupancies and rental rate growth for the Public Storage Same Store Facilities.

Short-term occupancy increases, like those we have experienced in the

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Shurgard portfolio, tend to result in a higher proportion of short-term tenants and a resulting increase in move-out ratios, which subsides over time. We believe this is related to the nature of the occupancy stabilization process, which we have observed to have two principal stages -- first, the physical fill-up of the facilities, then the achievement of a stable tenant base with historical levels of move-outs, as successive groups of tenants move in, the tenants in such groups with short-term needs (such as moving) move out, and the tenants with long-term storage needs remain.

Until recently, it has been difficult to see the benefits of the strategy we are employing to increase occupancies in our short-term operating results,

48

because promotional discounts and marketing expense adversely affect earnings in the month the customer moves in, while the revenue from these tenants are reflected in our operating results throughout their tenancy.

However, as the occupancies of the Shurgard Same Store Facilities have approached the Public Storage historical levels for the last two quarters, we believe we are close to achieving a tenant base with historical move-out rates. As a result, the more aggressive pricing and discounting at the Shurgard Same Store Facilities has begun to subside, providing rental rate growth and putting less pressure on the Public Storage Same Store Facilities. Realized rent per occupied square foot for the Shurgard Same Store Facilities for the quarter ended September 30, 2007 was 1.2% higher as compared to the same period in 2006 (compared to a 1.3% reduction during the first six months of 2007 as compared to the same period in 2006). We believe that achieving our goal of high occupancies with a stabilized tenant base will continue to positively impact our future operating income by a) allowing us to reduce customer acquisition costs such as advertising and promotion, as we will have to attract fewer new tenants to replace vacating tenants and b) allowing us to be more aggressive in raising rental rates to new and existing tenants.

In addition to our strategy to increase Shurgard occupancies, our operating results have been, and will continue to be, impacted by the general economic trends that affect the self-storage business. While it is difficult to quantify the impact of these economic trends, and even more difficult to predict what the impact will be in the future, we do believe that several such factors, including the slowdown in the national housing market as well as reduced year-over-year demand in markets which had enhanced self-storage demand in 2005 and 2006 due to the hurricanes (such as in Florida), have impacted our operating results.

We expect to continue with aggressive pricing, promotional discounts and marketing in the fourth quarter to continue to drive improvement in our overall occupancy levels. We expanded our media programs in the third quarter of 2007 and were on television in approximately 24 markets versus 14 markets in the third quarter of 2006. Future media advertising expenditures are not determinable at this time, and will be driven in part by demand for our self-storage spaces, our current occupancy levels, as well as our evaluation of the most effective mix of yellow page, media, and Internet advertising.

We continue to believe that the acquisition of the Shurgard portfolio provides operational efficiencies, specifically in the areas of marketing, national call center, and indirect overhead costs that support the operations of the facilities. We do not believe that these efficiencies are fully realized and reflected in our operating results due to the recent integration, increased property manager head count and increased marketing costs, as noted above.

SAME STORE FACILITIES - PUBLIC STORAGE

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The facilities included in the Public Storage Same Store Facilities are all stabilized and have been owned since January 1, 2005 and therefore provide meaningful comparative data for 2006 and 2007. The Public Storage Same Store Facilities contain approximately 77.8 million net rentable square feet, representing approximately 63% of the aggregate net rentable square feet of our consolidated domestic self-storage portfolio. Revenues and operating expenses with respect to this group of properties are set forth in the above Self-Storage Operations table under the caption, "Same Store Facilities - Public Storage." The following table sets forth additional operating data with respect to the Same Store Facilities:

49

| SAME STORE FACILITIES - PUBLIC STORAGE<br>-----                    | Three Months Ended                                    |            | Percentage<br>Change |
|--|---|------------|----------------------|
|  | 2007  | 2006       |                      |
|  | September 30,   |            |                      |
|  | -----   |            |                      |
|  | (Dollar amounts in thousands, except where indicated) |            |                      |
|  | -----   |            |                      |
| Rental income.....   | \$ 226,794  | \$ 222,884 | 1.8%                 |
| Late charges and administrative fees collected.....                | 10,640  | 10,536     | 1.0%                 |
|  | -----   | -----      |                      |
| Total rental income.....   | 237,434   | 233,420    | 1.7%                 |
|  | -----   | -----      |                      |
| Cost of operations before depreciation and amortization:           |   |            |                      |
| Direct property payroll.....                                       | 15,433  | 16,528     | (6.6)%               |
| Property taxes.....  | 22,718  | 21,700     | 4.7%                 |
| Repairs and maintenance.....                                       | 7,924   | 7,319      | 8.3%                 |
| Advertising and promotion.....                                     | 5,947   | 4,772      | 24.6%                |
| Utilities.....   | 5,583   | 5,582      | 0.0%                 |
| Property insurance.....  | 2,104   | 3,021      | (30.4)%              |
| Telephone reservation center.....                                  | 1,995   | 2,155      | (7.4)%               |
| Other cost of management.....                                      | 14,356  | 13,870     | 3.5%                 |
|  | -----   | -----      |                      |
| Total cost of operations.....                                      | 76,060  | 74,947     | 1.5%                 |
| Net operating income before depreciation and amortization (e)..... | 161,374   | 158,473    | 1.8%                 |
| Depreciation and amortization.....                                 | (40,553)  | (41,294)   | (1.8)%               |
|  | -----   | -----      |                      |
| Net operating income.....  | \$ 120,821  | \$ 117,179 | 3.1%                 |
|  | =====   | =====      |                      |
|  | -----   | -----      |                      |
| Gross margin (before depreciation and amortization)                | 68.0%   | 67.9%      | 0.1%                 |
| Weighted average for the fiscal year:                              |   |            |                      |
| Square foot occupancy (a).....                                     | 90.5%   | 91.3%      | (0.9)%               |
| Realized annual rent per occupied square foot (b)                  | \$ 12.89  | \$ 12.55   | 2.7%                 |
| REVPAF (c).....  | \$ 11.66  | \$ 11.46   | 1.7%                 |
| Weighted average at September 30:                                  |   |            |                      |
| Square foot occupancy.....   |   |            |                      |
| In place annual rent per occupied square foot (d)                  |   |            |                      |
| Total net rentable square feet (in thousands).....                 |   |            |                      |
| Number of facilities.....  |   |            |                      |

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- (a) Square foot occupancies represent weighted average occupancy levels over the entire period.
- (b) Realized annual rent per occupied square foot is computed by dividing rental income, prior to late charges and administrative fees, by the weighted average occupied square footage for the period. Realized annual rent per occupied square foot takes into consideration promotional discounts, credit card fees and other costs that reduce rental income from the contractual amounts due.
- (c) Annualized rental income per available square foot ("REVPAF") represents annualized rental income, prior to late charges and administrative fees, divided by total available net rentable square feet.
- (d) 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.
- (e) Total net operating income before depreciation and amortization or "NOI" is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation and amortization expense, for our Same Store facilities represents a portion of our total self-storage segment's net operating income before depreciation and amortization, and is reconciled to the segment total in the table "domestic self-storage operations summary" above. A reconciliation of our total self-storage segment's net operating income before depreciation and amortization to consolidated net income is included in Note 12 to our September 30, 2007 condensed consolidated financial statements, "Segment Information." Although depreciation and amortization are operating expenses, 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, segment performance, and comparing period-to-period and market-to-market property operating results. NOI is not a substitute for net operating income after depreciation and amortization in evaluating our operating results.

50

Rental income increased approximately 1.7% and 2.1% in the three and nine months ended September 30, 2007 as compared to the same periods in 2006. These increases were primarily attributable to higher average realized annual rental rates per occupied square foot, which were 2.7% and 2.8% higher in the three and nine months ended September 30, 2007 as compared to the same periods in 2006, offset partially by lower occupancy levels.

In the beginning of 2006, the quarterly year-over-year growth in rental income was consistent for each quarter, as rental income growth was 5.5% for the quarter ended March 31, 2006, and started accelerating to 5.9% for the quarter ended June 30, 2006 and 6.3% for the quarter ended September 30, 2006. For the quarter ended December 31, 2006, the year-over-year growth in rental income slowed to 3.5%. In 2007, rental income for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 were 2.9%, 1.7% and 1.7%, respectively. This reduction in growth was the result of lower occupancy levels combined with a reduction in year-over-year growth in realized rents.

It is difficult for us to pinpoint the exact causes for this slow down and the degree to which such causes have negatively affected the growth in rental income. We believe, however, that the reduction was due to a number of factors including; (i) the increased number of vacant spaces added to our overall system as a result of the Shurgard merger and our aforementioned focus on improving the

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occupancies of the Shurgard portfolio, (ii) hurricane activity that created unusual demand for storage space in our Florida markets in 2005 and 2004, making year-over-year trends in 2007 less favorable, (iii) general economic conditions, specifically the slow down in housing sales and moving activity, and (iv) increased competition. Many of these factors are beyond our control.

As indicated above, it has been our objective to close the occupancy gap between the acquired Shurgard properties versus the Public Storage existing portfolio and achieve a stabilized tenant base. We believe that this strategy has put pressure on occupancies and rental rate growth on our existing Same Store facilities since the merger, as demand appears to have shifted somewhat to the acquired Shurgard facilities as we have adjusted the level of discounts and monthly rents at the acquired Shurgard facilities to accelerate occupancy growth. Because it was important for us to maintain our occupancy levels in the Public Storage Same Store portfolio, we adjusted rental rates and the level of promotional discounts offered to new tenants as a means to expand move-in volumes throughout the entire portfolio. It has been challenging to maintain occupancy levels at our Same Store group of facilities, while at the same time trying to continue to improve the occupancy levels of the acquired Shurgard facilities and achieve a stabilized tenant base.

However, since we believe that we have now closed the occupancy gap between the acquired Shurgard properties versus the Public Storage existing portfolio and have achieved a stabilized tenant base, we expect that the pressure on Public Storage Same Store portfolio should subside. Despite this positive development, the other aforementioned factors noted above may still continue to have a negative impact on our revenue growth, and as a result it is unclear as to when we may achieve substantially higher levels of revenue growth in the Public Storage Same Store pool than we have been achieving so far in 2007.

Cost of operations (excluding depreciation and amortization) increased by 1.5% and 2.1% in the three and nine months ended September 30, 2007 as compared to the same periods in 2006.

Payroll expense has decreased by 6.6% and 2.1% in the three and nine months ended September 30, 2007 as compared to the same periods in 2006. The decrease experienced is primarily due to a reduction in payroll hours incurred resulting from improved staffing levels, over-staffing in the second and third quarters of 2006 due to the accelerated hiring of "bench" property managers in anticipation of the Shurgard merger, offset partially by higher wage rates.

Property tax expense increased 4.7% and 4.3% in the three and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006, due to higher assessments.

Repairs and maintenance expenditures increased 8.3% and 0.6% in the three and nine months ended September 30, 2007, respectively. We expect repairs and maintenance expenditures to be higher in the remainder of 2007 as compared to the same period in 2006.

51

Advertising and promotion is comprised principally of media (television and radio), yellow page, and Internet advertising. Our Same Stores pro rata share of advertising and promotion costs increased 24.6% and 16.2% in the three and nine months ended September 30, 2007 as compared to the same periods in 2006.

Media advertising for the Same Store properties increased from \$1,049,000 in the three months ended September 30, 2006 to \$2,885,000 in the three months ended September 30, 2007. We expect to continue with aggressive pricing, promotional discounts and marketing in the fourth quarter to continue to drive

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improvement in our overall occupancy levels, however, comparisons to prior year with respect to marketing and advertising should be more favorable in the fourth quarter because we significantly increased our television advertising in the fourth quarter of 2006 as compared to the third quarter of 2006. Future media advertising expenditures are not determinable at this time, and will be driven in part by demand for our self-storage spaces, our current occupancy levels, as well as our evaluation of the most effective mix of yellow page, media, and Internet advertising.

Our Internet advertising expenses decreased from \$828,000 for the three months ended September 30, 2006 to \$687,000 for the same period in 2007 and increased from \$2,167,000 for the nine months ended September 30, 2006 to \$2,234,000 for the same period in 2007. We expect that Internet advertising will continue to grow as that marketing channel becomes a more important source of new tenants.

Yellow page advertising expenditures for the Public Storage Same Store portfolio decreased from \$2,134,000 and \$6,777,000 in the three and nine months ended September 30, 2006 to \$1,839,000 and \$6,148,000 in the three months and nine months ended September 30, 2007, respectively. The decrease is a result of certain efficiencies related to the merger with Shurgard, specifically the allocation of costs over a larger pool of properties.

Utility expenses remained flat for the three ended September 30, 2007 and increased from \$15,511,000 to \$16,123,000 for the nine months ended September 30, 2007, respectively, due principally to higher energy costs as compared to the same periods in 2006. Continued levels of increases are expected during the remainder of 2007.

Insurance expense decreased 30.4% and 16.7% in the three and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006 reflecting significant decreases in property insurance resulting primarily from the softer insurance markets.

Telephone reservation center costs decreased slightly from \$2,155,000 and \$6,402,000 in the three and nine months ended September 30, 2006, respectively, to \$1,995,000 and \$6,246,000 in the three and nine months ended September 30, 2007, respectively. We continue to evaluate our telephone reservation center as we evaluate the appropriate staffing levels and location of personnel relative to our expanded portfolio, and as a result, expect telephone reservation center costs to remain somewhat volatile during the remainder of 2007 until we determine our appropriate ongoing level of expenses.

52

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

|                      | For the Quarter Ended                              |            |              |
|----------------------|--|------------|--------------|
|                      | March 31   | June 30    | September 30 |
|                      | (Amounts in thousands, except for per square foot) |            |              |
| Total rental income: |  |            |              |
| 2007                 | \$ 225,677   | \$ 230,161 | \$ 237,434   |
| 2006                 | \$ 219,297   | \$ 226,352 | \$ 233,420   |



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|   |           |           |           |
|---|-----------|-----------|-----------|
| Total cost of operations (excluding depreciation and amortization): |           |           |           |
| 2007  | \$ 77,828 | \$ 78,234 | \$ 76,060 |
| 2006  | \$ 75,802 | \$ 76,649 | \$ 74,947 |
| Property tax expense:   |           |           |           |
| 2007  | \$ 22,871 | \$ 21,630 | \$ 22,718 |
| 2006  | \$ 21,988 | \$ 20,730 | \$ 21,700 |
| Media advertising expense:  |           |           |           |
| 2007  | \$ 3,365  | \$ 5,333  | \$ 2,885  |
| 2006  | \$ 4,130  | \$ 2,802  | \$ 1,049  |
| REVPAF:   |           |           |           |
| 2007  | \$ 11.09  | \$ 11.32  | \$ 11.66  |
| 2006  | \$ 10.79  | \$ 11.13  | \$ 11.46  |
| Weighted average realized annual rent per occupied square foot:     |           |           |           |
| 2007  | \$ 12.35  | \$ 12.37  | \$ 12.89  |
| 2006  | \$ 11.97  | \$ 12.08  | \$ 12.55  |
| Weighted average occupancy levels for the period:                   |           |           |           |
| 2007  | 89.8%     | 91.5%     | 90.5%     |
| 2006  | 90.1%     | 92.1%     | 91.3%     |

53

### ANALYSIS OF REGIONAL TRENDS

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

|  | Three Months Ended    |           | Percentage<br>Change | Nine Mo               |
|--|-----------------------|-----------|----------------------|-----------------------|
|  | September 30,<br>2007 | 2006      |                      | September 30,<br>2007 |
| (Amounts in thousands, except for weighted average)      |                       |           |                      |                       |
| Same Store Facilities Operating Trends<br>by Region      |                       |           |                      |                       |
| Rental income:   |                       |           |                      |                       |
| Southern California (133 facilities)                     | \$ 38,406             | \$ 37,390 | 2.7%                 | \$ 112,680            |
| Northern California (133 facilities)                     | 28,794                | 28,031    | 2.7%                 | 84,092                |
| Texas (156 facilities).....                              | 21,554                | 20,880    | 3.2%                 | 62,309                |
| Florida (141 facilities).....                            | 26,303                | 27,095    | (2.9)%               | 78,597                |
| Illinois (92 facilities).....                            | 17,381                | 16,804    | 3.4%                 | 50,190                |
| Georgia (60 facilities).....                             | 8,231                 | 8,322     | (1.1)%               | 24,248                |
| All other states (601 facilities)                        | 96,765                | 94,898    | 2.0%                 | 281,156               |
| Total rental income.....                                 | 237,434               | 233,420   | 1.7%                 | 693,272               |
| Cost of operations before depreciation and amortization: |                       |           |                      |                       |
| Southern California.....                                 | 8,112                 | 8,002     | 1.4%                 | 24,961                |
| Northern California.....                                 | 7,008                 | 7,041     | (0.5)%               | 21,445                |

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|   |            |            |        |            |
|---|------------|------------|--------|------------|
| Texas.....  | 8,942      | 9,016      | (0.8)% | 27,056     |
| Florida.....  | 9,210      | 8,958      | 2.8%   | 27,186     |
| Illinois.....   | 6,834      | 6,415      | 6.5%   | 21,863     |
| Georgia.....  | 2,734      | 2,646      | 3.3%   | 8,280      |
| All other states.....   | 33,220     | 32,869     | 1.1%   | 101,331    |
| <hr/>   |            |            |        |            |
| Total cost of operations.....                                       | 76,060     | 74,947     | 1.5%   | 232,122    |
| Net operating income before depreciation and amortization:          |            |            |        |            |
| Southern California.....  | 30,294     | 29,388     | 3.1%   | 87,719     |
| Northern California.....  | 21,786     | 20,990     | 3.8%   | 62,647     |
| Texas.....  | 12,612     | 11,864     | 6.3%   | 35,253     |
| Florida.....  | 17,093     | 18,137     | (5.8)% | 51,411     |
| Illinois.....   | 10,547     | 10,389     | 1.5%   | 28,327     |
| Georgia.....  | 5,497      | 5,676      | (3.2)% | 15,968     |
| All other states.....   | 63,545     | 62,029     | 2.4%   | 179,825    |
| <hr/>   |            |            |        |            |
| Total net operating income before depreciation and amortization.... | \$ 161,374 | \$ 158,473 | 1.8%   | \$ 461,150 |
| Weighted average occupancy:   |            |            |        |            |
| Southern California.....  | 90.4%      | 91.0%      | (0.7)% | 90.7%      |
| Northern California.....  | 89.9%      | 90.5%      | (0.7)% | 90.3%      |
| Texas.....  | 91.7%      | 91.5%      | 0.2%   | 91.2%      |
| Florida.....  | 89.4%      | 92.6%      | (3.5)% | 90.4%      |
| Illinois.....   | 90.0%      | 91.0%      | (1.1)% | 89.8%      |
| Georgia.....  | 91.0%      | 92.6%      | (1.7)% | 90.8%      |
| All other states.....   | 90.6%      | 91.2%      | (0.7)% | 90.6%      |
| <hr/>   |            |            |        |            |
| Total weighted average occupancy....                                | 90.5%      | 91.3%      | (0.9)% | 90.6%      |
| REVPAF:   |            |            |        |            |
| Southern California.....  | \$ 17.63   | \$ 17.16   | 2.7%   | \$ 17.24   |
| Northern California.....  | 15.14      | 14.76      | 2.6%   | 14.75      |
| Texas.....  | 8.32       | 8.05       | 3.4%   | 8.02       |
| Florida.....  | 11.95      | 12.33      | (3.1)% | 11.90      |
| Illinois.....   | 11.77      | 11.39      | 3.3%   | 11.35      |
| Georgia.....  | 8.56       | 8.66       | (1.2)% | 8.40       |
| All other states.....   | 10.67      | 10.45      | 2.1%   | 10.35      |
| <hr/>   |            |            |        |            |
| Total REVPAF.....   | \$ 11.66   | \$ 11.46   | 1.7%   | \$ 11.36   |

54

| Same Store Facilities Operating<br>Trend by Region (Continued) | Three Months Ended |          |                      | Percentage<br>Change | Nine Mo<br>Sept<br>2007 |
|--|--------------------|----------|----------------------|----------------------|-------------------------|
|  | September 30,      |          | Percentage<br>Change |                      |                         |
|  | 2007               | 2006     |                      |                      |                         |
| (Amounts in thousands, except for weighted ave                 |                    |          |                      |                      |                         |
| Realized annual rent per occupied square foot:                 |                    |          |                      |                      |                         |
| Southern California.....                                       | \$ 19.50           | \$ 18.86 | 3.4%                 | \$ 19.01             |                         |
| Northern California.....                                       | 16.85              | 16.31    | 3.3%                 | 16.33                |                         |
| Texas.....   | 9.08               | 8.80     | 3.3%                 | 8.79                 |                         |

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|                                      |          |          |      |          |
|--------------------------------------|----------|----------|------|----------|
| Florida.....                         | 13.37    | 13.31    | 0.5% | 13.17    |
| Illinois.....                        | 13.08    | 12.52    | 4.5% | 12.64    |
| Georgia.....                         | 9.41     | 9.36     | 0.5% | 9.25     |
| All other states.....                | 11.78    | 11.46    | 2.8% | 11.42    |
| -----                                |          |          |      |          |
| Total realized rent per square foot. | \$ 12.89 | \$ 12.55 | 2.7% | \$ 12.54 |
| =====                                |          |          |      |          |

In place annual rent per occupied square foot at September 30:

|   |          |
|---|----------|
| Southern California.....                      | \$ 20.45 |
| Northern California.....                      | 17.66    |
| Texas.....                                    | 9.45     |
| Florida.....                                  | 14.30    |
| Illinois.....                                 | 13.55    |
| Georgia.....                                  | 10.10    |
| All other states.....                         | 12.30    |
| -----   |          |
| Total in place rent per occupied square foot: | \$ 13.97 |
| =====   |          |

The Southern California Market consists principally of the greater Los Angeles area and San Diego, and has historically been a source of strong growth due to its diverse economy and continued population growth. In addition, barriers to entry in the form of difficult permitting requirements tend to reduce the potential for increased competition in the infill locations where we focus our operations.

The Northern California market consists principally of San Francisco and related peripheral areas. While this area has a vibrant economy and relatively strong population growth, it has been subject to general economic conditions, principally issues associated with the technology sector. In addition, there has been increased competition in the areas that we do business, principally in the peripheral areas near San Francisco, due to new supply. As a result, revenue growth in this area has been average relative to our other markets.

The Texas market principally includes Dallas, Houston and San Antonio. This market has historically been subject to volatility due to minimal regulatory restraint upon building, which results in cycles of overbuilding and absorption. For the last few years, we have been in a period of increased supply and competition in the areas we operate, and as a result revenue growth has been average relative to other markets.

The Florida market principally includes Miami, Orlando, Tampa, and West Palm Beach. These markets were our strongest in terms of revenue growth in 2005 and 2006, due in part to increased moving and storage demand resulting from the impact of hurricane activity in 2005 and 2004. However, growth in revenues during the first nine months of 2007 has moderated due primarily to the lack of hurricane activity during the 2006 season resulting in difficult year-over-year comparisons, and we expect this trend to continue throughout 2007. Over the longer term, we believe that this market benefits from continued strong population growth and barriers to entry.

### SAME STORE FACILITIES - SHURGARD

In connection with the Shurgard merger, we acquired 487 self-storage facilities in the United States located in 23 states. A total of 343 facilities have been operating at a stabilized occupancy level for several years under Shurgard management prior to the merger and then under the Public Storage

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management following the merger. These stabilized facilities are referred to as "Shurgard Same Store Facilities."

As reflected in a preceding table entitled "Domestic self - storage operations summary" above, the historical operating results for this group of facilities increased significantly for both the three and nine months ended September 30, 2007 as compared to the same periods in 2006. This increase was primarily the result of having only a partial period's operating results in the 2006 periods; from August 23, 2006 (date of the Shurgard merger) through September 30, 2006.

To provide additional comparative operating data, the table below sets forth the operations of the Shurgard Same Store Facilities for the entire periods presented without regard to the timing of the merger. We believe that this presentation more effectively portrays how these facilities are performing, notwithstanding that the data presented for the 2006 periods do not represent that actual results included in our operations for the 2006 periods.

| Shurgard Domestic Same Store Facilities: (a)                 | Three Months Ended    |                  | Percentage<br>Change |
|--|-----------------------|------------------|----------------------|
|  | September 30,<br>2007 | 2006             |                      |
| (Dollar amounts in thousands, except as otherwise indicated) |                       |                  |                      |
| Revenues:  |                       |                  |                      |
| Rental income.....   | \$ 67,041             | \$ 62,826        | 6.7%                 |
| Late charges and administrative fees collected               | 2,272                 | 2,364            | (3.9)%               |
| <b>Total revenues (b).....</b>                               | <b>69,313</b>         | <b>65,190</b>    | <b>6.3%</b>          |
| Cost of operations (excluding depreciation):                 |                       |                  |                      |
| Property taxes .....   | 6,713                 | 6,329            | 6.1%                 |
| Direct property payroll.....                                 | 4,214                 | 6,922            | (39.1)%              |
| Advertising and promotion.....                               | 1,513                 | 1,323            | 14.4%                |
| Utilities.....   | 1,870                 | 1,963            | (4.7)%               |
| Repairs and maintenance.....                                 | 2,034                 | 1,299            | 56.6%                |
| Telephone reservation center.....                            | 519                   | 162              | 220.4%               |
| Property insurance.....                                      | 625                   | 491              | 27.3%                |
| Other costs of management.....                               | 4,330                 | 5,190            | (16.6)%              |
| <b>Total cost of operations (b).....</b>                     | <b>21,818</b>         | <b>23,679</b>    | <b>(7.9)%</b>        |
| <b>Net operating income (excluding depreciation) (c)</b>     | <b>\$ 47,495</b>      | <b>\$ 41,511</b> | <b>14.4%</b>         |
| Gross margin (before depreciation).....                      | 68.5%                 | 63.7%            | 7.5%                 |
| Weighted average for the period:                             |                       |                  |                      |
| Square foot occupancy (d).....                               | 89.4%                 | 84.8%            | 5.4%                 |
| Realized annual rent per occupied square foot (e)            | \$ 13.76              | \$ 13.60         | 1.2%                 |
| REVPAF (f) (g).....  | \$ 12.30              | \$ 11.53         | 6.7%                 |
| Weighted average at September 30:                            |                       |                  |                      |
| Square foot occupancy.....                                   |                       |                  |                      |
| In place annual rent per occupied square foot (h)            |                       |                  |                      |
| Total net rentable square feet (in thousands).....           |                       |                  |                      |
| Number of facilities.....                                    |                       |                  |                      |

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- (a) Operating data reflects the operations of these facilities without regard to the time period in which Public Storage owned the facilities.

56

- (b) Revenues and cost of operations do not include ancillary revenues and expenses generated at the facilities with respect to tenant reinsurance, and retail sales and truck rentals. "Other costs of management" included in cost of operations principally represents all the indirect costs incurred in the operations of the facilities. Indirect costs principally include supervisory costs and corporate overhead cost incurred to support the operating activities of the facilities. These amounts presented herein will not necessarily compare to amounts previously presented by Shurgard in its public reporting due to differences in classification of revenues and expenses, including tenant reinsurance, retail sales and truck rental activities which are included on our income statement under "ancillary operations" but were previously presented by Shurgard as self-storage revenue and operating expenses.
- (c) Net operating income (excluding depreciation) or "NOI" is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation expense. Although depreciation is an operating 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, segment performance, and comparing period-to-period and market-to-market property operating results. NOI is not a substitute for net operating income after depreciation in evaluating our operating results. We have not presented depreciation expense for these facilities because the depreciation expense is based upon historical cost, which is substantially different before the merger and after.
- (d) Square foot occupancies represent weighted average occupancy levels over the entire period.
- (e) Realized annual rent per occupied square foot is computed by annualizing the result of dividing rental income by the weighted average occupied square footage for the period. Realized annual rent per occupied square foot takes into consideration promotional discounts and other costs that reduce rental income from the contractual amounts due.
- (f) Annualized rental income per available square foot ("REVPAF") represents annualized rental income divided by total available net rentable square feet.
- (g) Late charges and administrative fees are excluded from the computation of realized annual rent per occupied square foot and REVPAF because exclusion of these amounts provides a better measure of our ongoing level of revenue, by excluding the volatility of late charges, which are dependent principally upon the level of tenant delinquency, and administrative fees, which are dependent principally upon the absolute level of move-ins for a period.
- (h) 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.

On the date of the merger, we successfully installed our real-time property operation system at all U.S. Shurgard locations. As a result, these facilities are integrated into our national call center, website, and management structure. The integration of these facilities into our operations has resulted in

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additional benefits and cost savings.

As noted above, the Public Storage Same-Store Facilities had occupancies of approximately 90.6% at September 30, 2007, as compared to 88.7% for the acquired Shurgard Same Store Facilities. It has been our objective to continue to close this occupancy gap in order to increase REVPAF. In attempting to accomplish this objective, we significantly expanded our domestic pricing, promotional, and media programs, and as a result, aggregate media costs increased in the first two quarters of 2007 versus the aggregate level of spending incurred for the same period in 2006.

As a result, we have improved the occupancy of the Shurgard Same-Store Facilities, with average occupancy up 5.3% at September 30, 2007 as compared to September 30, 2006. As we have raised the occupancy of the Shurgard Same-Store facilities, we have recently been able to be less aggressive on pricing and as a result our trends in realized rent per occupied square foot trends have improved from a reduction of 1.3% in the first six months of 2007 as compared to the same period in 2006, to a 1.2% increase in the third quarter of 2007 as compared to the same period in 2006. For the fourth quarter of 2007, we expect revenue growth for this group of properties to be higher than the Public Storage Same Store group, primarily due to a higher year-over year occupancy spread.

Property tax expense increased 6.1% and 7.6% in the three and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006, due to higher assessments following the merger, including properties in California.

57

Beginning January 2007, former Shurgard employees became participants in the Public Storage compensation and benefit plan, which in general has lower wage rates and benefit plan costs than the historical Shurgard plan. This decline is reflected in direct payroll costs, which have declined 39.1% and 40.7% in the three and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006. We expect these reduction trends to moderate in the fourth quarter of 2007, because turnover of former Shurgard employees was high immediately following the merger and as a result in the fourth quarter of 2006 the proportion of legacy Shurgard employees, at the higher wage rates and benefit plan costs, was lower than in the third quarter of 2006.

Overall advertising and promotion increased 14.4% and 74.8% in the three and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006, due primarily to our media advertising expenditures, offset partially by lower yellow page advertising expense. As noted previously, we increased advertising and promotional activities immediately following the merger with Shurgard and continued through the first nine months of 2007 in order to improve the occupancy levels of the facilities acquired in the merger.

Utility expense decreased 4.7% in the three months ended September 30, 2007 and increased 2.8% in the nine months ended September 30, 2007, as compared to the same periods in 2006, due primarily to higher utility rates.

Other cost of management, which principally includes supervisory and indirect overhead costs, decreased by 16.6% and 22.0% for the three and nine months ended September 30, 2007, as compared to the same periods in 2006. These reductions principally represent the synergies created by the merger and the elimination of duplicative operating functions.

58

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### OTHER FACILITIES

In addition to the Public Storage and Shurgard Same Store groups of facilities, at September 30, 2007, we had 320 facilities that were not classified into either of these pools. These properties include recently acquired facilities, recently developed facilities and facilities that were recently expanded by adding additional storage units. In general, these facilities are not stabilized with respect to occupancies or rental rates. As a result of the fill-up process and timing of when the facilities were put into place, year-over-year changes can be significant.

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

#### OTHER FACILITIES - NON STABILIZED

Three Months Ended  
September 30

|  | 2007             | 2006             | Change          | -----     |
|--|------------------|------------------|-----------------|-----------|
| (Dollar amounts in thousands, ex   |                  |                  |                 |           |
| <b>Rental income:</b>  |                  |                  |                 |           |
| Facilities put in place in 2007.....                                       | \$ 799           | \$ -             | \$ 799          | \$        |
| Facilities put in place in 2006.....                                       | 34,241           | 16,709           | 17,532          |           |
| Facilities put in place prior to 2006.....                                 | 14,320           | 12,955           | 1,365           |           |
| Deconsolidated Shurgard facilities (a).....                                | -                | 585              | (585)           |           |
| Expansion facilities.....  | 21,770           | 19,889           | 1,881           |           |
| <b>Total rental income.....</b>  | <b>71,130</b>    | <b>50,138</b>    | <b>20,992</b>   |           |
| <b>Cost of operations before depreciation and amortization:</b>            |                  |                  |                 |           |
| Facilities put in place in 2007.....                                       | \$ 396           | \$ -             | \$ 396          | \$        |
| Facilities put in place in 2006.....                                       | 11,875           | 5,981            | 5,894           |           |
| Facilities put in place prior to 2006.....                                 | 4,598            | 4,382            | 216             |           |
| Deconsolidated Shurgard facilities (a).....                                | -                | 234              | (234)           |           |
| Expansion facilities.....  | 7,202            | 6,522            | 680             |           |
| <b>Total cost of operations</b>  | <b>24,071</b>    | <b>17,119</b>    | <b>6,952</b>    |           |
| <b>Net operating income before depreciation and amortization:</b>          |                  |                  |                 |           |
| Facilities put in place in 2007.....                                       | \$ 403           | \$ -             | \$ 403          | \$        |
| Facilities put in place in 2006.....                                       | 22,366           | 10,728           | 11,638          |           |
| Facilities put in place prior to 2006.....                                 | 9,722            | 8,573            | 1,149           |           |
| Deconsolidated Shurgard facilities (a).....                                | -                | 351              | (351)           |           |
| Expansion facilities.....  | 14,568           | 13,367           | 1,201           |           |
| <b>Total net operating income before depreciation and amortization (b)</b> | <b>47,059</b>    | <b>33,019</b>    | <b>14,040</b>   |           |
| <b>Depreciation and amortization.....</b>                                  | <b>(29,817)</b>  | <b>(21,036)</b>  | <b>(8,781)</b>  |           |
| <b>Net operating income.....</b>   | <b>\$ 17,242</b> | <b>\$ 11,983</b> | <b>\$ 5,259</b> | <b>\$</b> |
| <b>Weighted average square foot occupancy during the period:</b>           |                  |                  |                 |           |
| Facilities put in place in 2007.....                                       | 59.7%            | -                | -               |           |
| Facilities put in place in 2006.....                                       | 85.9%            | 80.2%            | 7.1%            |           |
| Facilities put in place prior to 2006.....                                 | 86.7%            | 84.5%            | 2.6%            |           |

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|   |       |       |       |
|---|-------|-------|-------|
| Deconsolidated Shurgard facilities (a)..... | -     | 84.6% | -     |
| Expansion facilities                        | 82.9% | 82.3% | 0.7%  |
|   | ----- | ----- | ----- |
|   | 84.7% | 81.8% | 3.5%  |
|   | ===== | ===== | ===== |

59

OTHER FACILITIES - NON STABILIZED

Three Months Ended  
September 30

|  | 2007     | 2006     | Change |       |
|--|----------|----------|--------|-------|
|  | -----    | -----    | -----  | ----- |
| Weighted average realized annual rent per occupied square foot for the period: |          |          |        |       |
| Facilities put in place in 2007.....   | \$ 15.41 | \$ -     | -      | \$    |
| Facilities put in place in 2006.....   | 12.74    | 12.32    | 3.4%   |       |
| Facilities put in place prior to 2006 .....                                    | 14.74    | 13.71    | 7.5%   |       |
| Deconsolidated Shurgard facilities (a).....                                    | -        | 9.82     | -      |       |
| Expansion facilities   | 13.12    | 12.81    | 2.4%   |       |
|  | -----    | -----    | -----  | ----- |
|  | \$ 13.33 | \$ 12.89 | 3.4%   | \$    |
|  | =====    | =====    | =====  | ===== |

In place annual rent per occupied square foot at September 30:

|   |  |  |  |    |
|---|--|--|--|----|
| Facilities put in place in 2007.....        |  |  |  | \$ |
| Facilities put in place in 2006.....        |  |  |  |    |
| Facilities put in place prior to 2006 ..... |  |  |  |    |
| Deconsolidated Shurgard facilities (a)..... |  |  |  |    |
| Expansion facilities                        |  |  |  |    |

At September 30:

Number of Facilities:

|   |  |
|---|--|
| Facilities put in place in 2007.....        |  |
| Facilities put in place in 2006 (c).....    |  |
| Facilities put in place prior to 2006 ..... |  |
| Deconsolidated Shurgard facilities (a)..... |  |
| Expansion facilities.....                   |  |

Net rentable square feet (in thousands):

|   |  |
|---|--|
| Facilities put in place in 2007.....        |  |
| Facilities put in place in 2006.....        |  |
| Facilities put in place prior to 2006.....  |  |
| Deconsolidated Shurgard facilities (a)..... |  |
| Expansion facilities.....                   |  |

(a) Represents the operations of 11 facilities acquired in the merger with



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Shurgard which we no longer consolidate in our financial statements effective May 24, 2007. The operations for these facilities from August 23, 2006 through May 24, 2007 are included in this table.

- (b) Total net operating income before depreciation and amortization or "NOI" is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation and amortization expense, for our self-storage facilities represents a portion of our total self-storage segment's net operating income before depreciation, and is denoted in the table "self-storage operations summary" above. A reconciliation of our total self-storage segment's net operating income before depreciation to consolidated net income is included in Note 12 to our September 30, 2007 condensed consolidated financial statements, "Segment Information." Although depreciation and amortization are operating expenses, 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, segment performance, and comparing period-to-period and market-to-market property operating results. NOI is not a substitute for net operating income after depreciation and amortization in evaluating our operating results.
- (c) Includes 133 facilities acquired in the Shurgard merger which are not stabilized, as well as 33 other facilities that were acquired or newly developed in 2006.

60

The properties denoted under "Facilities put in place in 2007" and "Facilities put in place in 2006" were put into operation within the Public Storage system at various dates throughout each period presented. Accordingly, rental income, cost of operations, depreciation, net operating income, weighted average square foot occupancies and realized rents per square foot represent the operating results for the partial period that we owned the facilities during the year acquired. In addition, in place rents per occupied square foot at September 30, 2007 and 2006, reflect the amounts for those facilities we owned at each of those respective dates.

In the first nine months of 2007, we acquired seven facilities, in single property transactions, for an aggregate cost of \$72,787,000. These facilities contain, in aggregate approximately, 511,000 net rentable square feet, with one facility located in Hawaii and the remainder in California. In addition, we completed development of two facilities with aggregate square footage of approximately 102,000 and cost of \$13,710,000.

We believe our presence in and knowledge of substantially all of the major markets in the United States enhances our ability to identify attractive acquisition opportunities and capitalize on the overall fragmentation in the storage industry. Our acquisitions consist of facilities that have been operating for a number of years as well as newly constructed facilities that were in the process of filling up to stabilized occupancy levels. In either case, we have been able to leverage off of our operating strategies and improve the occupancy levels of the facilities, or with respect to the newly developed facilities we have been able to accelerate the fill-up pace.

We expect that our non-stabilized facilities will continue to provide earnings growth during 2007 and into 2008 as these facilities continue to improve their occupancy levels as well as realized rental rates.

We acquired 487 self-storage facilities in 23 U.S. states with 32.3 million net rentable square feet in connection with the Shurgard merger. Effective May 24, 2007, due to a loss in control of the related partnerships that owned these

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facilities, we began deconsolidating 11 of these facilities with an aggregate of 624,000 net rentable square feet (referred to hereinafter as "The Deconsolidated Shurgard Properties."). The 476 Shurgard facilities that continue to be consolidated on our financial statements at September 30, 2007 are referred to as the "Consolidated Shurgard Properties." With respect to the Consolidated Shurgard Properties, the operating data presented in the table above reflects the historical data from January 1 through September 30, 2007, the period owned and operated by Public Storage. With respect to the Deconsolidated Shurgard Properties, the operating data presented includes the historical data from August 23, 2006 through May 24, 2007. Our pro-rata share of the operating results of the Deconsolidated Shurgard Properties after May 24, 2007 are presented as a component of Equity in Earnings of Real Estate Entities.

Development of self-storage facilities causes short-term earnings dilution because of the extended time to stabilize a self-storage facility. We have developed self-storage facilities, despite the short-term earnings dilution, because it is advantageous for us to continue to expand our asset base and benefit from the resulting increase critical mass, with facilities that will improve our portfolio's overall average construction and location quality.

The decision to commence development of any particular self-storage location is based upon several factors with respect to that local market, including our estimate of current and future general economic conditions, demographic conditions, population growth, the likelihood of and cost of obtaining permits, construction costs, as well as the level of demand at our existing self-storage facilities in proximity to the prospective facility. Our level of new development starts has declined significantly in the last few years due to increased in construction cost, increases in competition with retail, condominium, and apartment operators for quality construction sites in urban locations, and more difficult zoning and permitting requirements, which has reduced the number of attractive sites available for development and reduced our development of facilities. It is unclear when, or if, these conditions will improve.

61

### SHURGARD EUROPEAN OPERATING DATA

In the merger with Shurgard, we acquired 160 facilities located in seven European countries with an aggregate of 8,385,000 net rentable square feet. During 2007, we opened four facilities in Europe with an aggregate of 203,000 net rentable square feet. At September 30, 2007, our European operations comprise 169 facilities with an aggregate of 8,846,000 net rentable square feet, of which, 96 of these facilities are referred to as the Europe Same Store Facilities (defined below). Of the 169 facilities, 103 facilities are wholly owned, with the remaining 66 facilities owned by the European Development Joint Venture, in which we have a 20% equity interest.

Europe self - storage operations summary:  
-----

|  | Three Months Ended<br>September 30, |           |        | Percentage<br>Change | 200   |
|--|-------------------------------------|-----------|--------|----------------------|-------|
|  | 2007                                | 2006      |        |                      | 200   |
| Rental income:                               |                                     |           |        |                      |       |
| Same Store Facilities - Shurgard Europe (a). | \$ 32,798                           | \$ 12,012 | 173.0  |                      | \$ 93 |
| Other wholly-owned facilities (b).....       | 2,250                               | 955       | 135.6% |                      | 6     |

(Dollar amounts in tho

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|  |            |            |         |         |
|--|------------|------------|---------|---------|
| Joint Venture Facilities (c) (d).....                                    | 15,024     | 4,381      | 242.9%  | 40      |
| Total rental income.....   | 50,072     | 17,348     | 188.6%  | 140     |
| Cost of operations before depreciation and amortization (e):             |            |            |         |         |
| Same Store Facilities - Shurgard Europe.....                             | 12,033     | 5,048      | 138.4%  | 37      |
| Other wholly-owned facilities.....                                       | 816        | 375        | 117.6%  | 2       |
| Joint Venture Facilities.....  | 8,573      | 3,101      | 176.5%  | 27      |
| Total cost of operations.....  | 21,422     | 8,524      | 151.3%  | 67      |
| Net operating income before depreciation and amortization (e):           |            |            |         |         |
| Same Store Facilities - Shurgard Europe.....                             | 20,765     | 6,964      | 198.2%  | 55      |
| Other wholly-owned facilities.....                                       | 1,434      | 580        | 147.2%  | 4       |
| Joint Venture Facilities.....  | 6,451      | 1,280      | 404.0%  | 12      |
| Total net operating income before depreciation and amortization (e)..... | 28,650     | 8,824      | 224.7%  | 72      |
| Depreciation and amortization expense.....                               | (31,899)   | (15,020)   | 112.4%  | (110)   |
| Net operating loss.....  | \$ (3,249) | \$ (6,196) | (47.6)% | \$ (37) |
| Weighted average square foot occupancy during the period.....            |            |            |         |         |
| Same Store Facilities - Shurgard Europe...                               | 91.0%      | 87.5%      | 4.0%    | 8       |
| Other wholly-owned facilities.....                                       | 88.1%      | 89.2%      | (1.2)%  | 8       |
| Joint Venture Facilities.....  | 78.6%      | 70.6%      | 11.3%   | 7       |
|  | 86.4%      | 81.9%      | 5.5%    | 8       |
| At September 30:   |            |            |         |         |
| Number of Facilities:  |            |            |         |         |
| Same Store Facilities - Shurgard Europe...                               |            |            |         |         |
| Other wholly-owned facilities.....                                       |            |            |         |         |
| Joint Venture Facilities.....  |            |            |         |         |
| Net rentable square feet (in thousands):                                 |            |            |         |         |
| Same Store Facilities - Shurgard Europe...                               |            |            |         | 5       |
| Other wholly-owned facilities.....                                       |            |            |         | 3       |
| Joint Venture Facilities.....  |            |            |         | 8       |

62

(a) The European Same Store facilities, described below, are comprised of 96 facilities that are wholly owned. (b) The other wholly-owned facilities include seven facilities that we wholly own, which are not considered European Same Store facilities.

(c) There are four facilities, which were acquired or developed the first nine months of 2007 for an aggregate of approximately \$31,271,000. These facilities are owned by the European Development Joint Venture.

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- (d) The European Development Joint Venture, in which we have a 20% equity interest, owns an additional 62 facilities which were acquired or developed from 2003 to 2006.
- (e) Total net operating income before depreciation and amortization or "NOI" is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation and amortization expense, for our commercial property segment is presented in Note 12 to our condensed consolidated financial statements, "Segment Information," which includes a reconciliation of net operating income before depreciation for this segment to our consolidated net income. Although depreciation and amortization are operating expenses, 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, segment performance, and comparing period-to-period and market-to-market property operating results. NOI is not a substitute for net operating income after depreciation and amortization in evaluating our operating results.

Amounts presented in the table above reflect significant increases in revenues and cost of operations, in the three and nine months ended September 30, 2007 as compared to the same periods in 2006, due to the merger with Shurgard which was completed on August 23, 2006 (see Note 3 to the condensed consolidated financial statements). The operating results of all of the facilities acquired in the merger and located in Europe are included in our financial statements and in the table above for the period we owned the facilities.

The Joint Venture opened four facilities in 2007 with an aggregate development cost of \$31,271,000. Revenues and expenses presented in the table above with respect to these properties totaled \$231,000 and \$486,000, respectively, for the three months ended September 30, 2007 and \$325,000 and \$1,102,000, respectively for the nine months ended September 30, 2007.

The operating data presented in the table below reflect the historical data from January 1 to September 30, 2006, the period for which the 96 facilities, which have been operated by Shurgard since January 1, 2005, with the historical data from January 1 through September 30, 2007, the period operated under Public Storage. In addition, such amounts are reflected utilizing the average exchange rates for the three months ended September 30, 2007, rather than the respective exchange rates in effect for each period. We present this data on such a "constant exchange rate" basis because we believe it allows comparability of the various periods, and isolates the impact of exchange rates with respect to the trends in revenues and cost of operations.

As a result, the data presented below does not reflect the actual results included in our operations for the three and nine months ended September 30, 2006, and does not represent the actual amounts reflected in our financial statements for the quarter or nine months ended September 30, 2007. We have applied our definition of what qualifies as a Same Store. As a result, the number of properties included in the Shurgard European Same Store portfolio has decreased from 123 facilities (as reported by Shurgard in the second quarter of 2006) to 96 facilities as is currently being reported.

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operated by Shurgard Europe on a stabilized basis since January 1, 2005 ("Europe Same Store Facilities"): (a)

-----

|  | Three Months Ended<br>September 30, |                  |                      |             |
|--|-------------------------------------|------------------|----------------------|-------------|
|  | 2007                                | 2006             | Percentage<br>Change |             |
| (Dollar amounts in thousands, except weight exchange ra  |                                     |                  |                      |             |
| <b>Revenues:</b>   |                                     |                  |                      |             |
| Rental income.....                                       | \$ 32,475                           | \$ 29,660        | 9.5%                 | \$          |
| Late charges and administrative fees collected           | 323                                 | 286              | 12.9%                |             |
| <b>Total revenues (c).....</b>                           | <b>32,798</b>                       | <b>29,946</b>    | <b>9.5%</b>          |             |
| <b>Cost of operations (excluding depreciation):</b>      |                                     |                  |                      |             |
| Property taxes .....                                     | 1,525                               | 1,359            | 12.2%                |             |
| Direct property payroll.....                             | 3,680                               | 4,159            | (11.5)%              |             |
| Advertising and promotion.....                           | 738                                 | 1,270            | (41.9)%              |             |
| Utilities.....   | 630                                 | 749              | (15.9)%              |             |
| Repairs and maintenance.....                             | 790                                 | 967              | (18.3)%              |             |
| Property insurance.....                                  | 231                                 | 373              | (38.1)%              |             |
| Other costs of management.....                           | 4,439                               | 4,712            | (5.8)%               |             |
| <b>Total cost of operations (c).....</b>                 | <b>12,033</b>                       | <b>13,589</b>    | <b>(11.5)%</b>       |             |
| <b>Net operating income (excluding depreciation) (d)</b> | <b>\$ 20,765</b>                    | <b>\$ 16,357</b> | <b>26.9%</b>         | <b>\$ 5</b> |
| Gross margin (before depreciation).....                  | 63.3%                               | 54.6%            | 15.9%                |             |
| <b>Weighted average for the period:</b>                  |                                     |                  |                      |             |
| Square foot occupancy (e).....                           | 91.0%                               | 86.7%            | 5.0%                 |             |
| Realized annual rent per occupied square foot (f)        | \$27.00                             | \$25.89          | 4.3%                 |             |
| REVPAF (g) (h).....                                      | \$24.57                             | \$22.44          | 9.5%                 |             |
| <b>Weighted average at September 30:</b>                 |                                     |                  |                      |             |
| Square foot occupancy.....                               |                                     |                  |                      |             |
| In place annual rent per occupied square foot (i)        |                                     |                  |                      |             |
| Total net rentable square feet (in thousands).....       |                                     |                  |                      |             |

(a) Operating data reflects the operations of these facilities without regard to the time period in which Public Storage owned the facilities; only the amounts for the period January 1 through September 30, 2007 are included in our consolidated operating results.

(b) The majority of our European operations are denominated in Euros. For comparative purposes, amounts for the three months ended September 30, 2006 and 2007 are translated at constant exchange rates representing the average exchange rates for the three months ended September 30, 2007. Amounts for the nine months ended September 30, 2006 and 2007 are also translated at constant exchange rates, representing the average exchange rates for the nine months ended September 30, 2007. The average exchange rate for the Euro was approximately 1.374 and 1.344, respectively, in US Dollars per Euro for the three and nine months ended September 30, 2007, respectively.

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- (c) Revenues and cost of operations do not include ancillary revenues and expenses generated at the facilities with respect to tenant reinsurance and retail sales. "Other costs of management" included in cost of operations principally represents all the indirect costs incurred in the operations of the facilities. Indirect costs principally include supervisory costs and corporate overhead cost incurred to support the operating activities of the facilities. These amounts presented herein will not necessarily compare to amounts previously presented by Shurgard in its public reporting due to differences in classification of revenues and expenses, including tenant reinsurance, retail sales, and truck rental activities which are included on our income statement under "ancillary operations" but were previously presented by Shurgard as self-storage revenue and operating expenses.
- (d) Net operating income (excluding depreciation) or "NOI" is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation expense. Although depreciation is an operating 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, segment

64

performance, and comparing period-to-period and market-to-market property operating results. NOI is not a substitute for net operating income after depreciation in evaluating our operating results. We have not presented depreciation and amortization expense for these facilities because the depreciation and amortization expense is based upon historical cost, which is substantially different before the merger and after.

- (e) Square foot occupancies represent weighted average occupancy levels over the entire period.
- (f) Realized annual rent per occupied square foot is computed by annualizing the result of dividing rental income by the weighted average occupied square footage for the period. Realized annual rent per occupied square foot takes into consideration promotional discounts and other costs that reduce rental income from the contractual amounts due.
- (g) Annualized rental income per available square foot ("REVPAF") represents annualized rental income divided by total available net rentable square feet.
- (h) Late charges and administrative fees are excluded from the computation of realized annual rent per occupied square foot and REVPAF because exclusion of these amounts provides a better measure of our ongoing level of revenue, by excluding the volatility of late charges, which are dependent principally upon the level of tenant delinquency, and administrative fees, which are dependent principally upon the absolute level of move-ins for a period.
- (i) 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.

The European Same Store properties continue to reflect above average growth. With occupancy stabilized at above 90%, we believe we have pricing power and expect to generate additional growth through rental rate increases. The properties are also benefiting from expense control, resulting in negative expense growth. The European team is selectively adapting various operating strategies we use in the United States and incorporating them into their operating model.

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The following table sets forth certain regional trends in the Europe Same Store facilities:

|   | Three Months Ended<br>September 30, |           | Percentage<br>Change | Nine Mo   |
|---|-------------------------------------|-----------|----------------------|-----------|
|   | 2007                                | 2006      |                      | 2007      |
| (Dollar amounts in thousands, except per                              |                                     |           |                      |           |
| Rental income:  |                                     |           |                      |           |
| Belgium.....  | \$ 4,072                            | \$ 3,709  | 9.8%                 | \$ 11,589 |
| Denmark.....  | 1,501                               | 1,315     | 14.1%                | 4,265     |
| France.....   | 8,298                               | 7,709     | 7.6%                 | 23,747    |
| Netherlands.....  | 6,680                               | 5,838     | 14.4%                | 18,813    |
| Sweden.....   | 6,833                               | 6,358     | 7.5%                 | 19,568    |
| United Kingdom.....   | 5,414                               | 5,017     | 7.9%                 | 15,411    |
| Total rental income.....  | \$ 32,798                           | \$ 29,946 | 9.5%                 | \$ 93,393 |
| Cost of operations before depreciation and<br>amortization (a):       |                                     |           |                      |           |
| Belgium.....  | \$ 1,669                            | \$ 2,021  | (17.4)%              | \$ 5,034  |
| Denmark.....  | 452                                 | 653       | (30.8)%              | 1,529     |
| France.....   | 3,204                               | 3,609     | (11.2)%              | 10,316    |
| Netherlands.....  | 2,407                               | 2,624     | (8.3)%               | 7,471     |
| Sweden.....   | 2,317                               | 2,571     | (9.9)%               | 7,447     |
| United Kingdom.....   | 1,984                               | 2,111     | (6.0)%               | 5,959     |
| Total cost of operations before<br>depreciation and amortization..... | \$ 12,033                           | \$ 13,589 | (11.5)%              | \$ 37,756 |

65

|   | Three Months Ended<br>September 30, |       | Percentage<br>Change | Nine Mo |
|---|-------------------------------------|-------|----------------------|---------|
|   | 2007                                | 2006  |                      | 2007    |
| (Dollar amounts in thousands, except per          |                                     |       |                      |         |
| Weighted average occupancy levels for the period: |                                     |       |                      |         |
| Belgium.....                                      | 88.8%                               | 81.3% | 9.2%                 | 86.5%   |
| Denmark.....                                      | 93.7%                               | 91.1% | 2.9%                 | 93.9%   |
| France.....                                       | 91.1%                               | 89.2% | 2.1%                 | 90.4%   |
| Netherlands.....                                  | 90.1%                               | 84.8% | 6.3%                 | 88.5%   |





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|                                  |           |           |          |            |       |
|----------------------------------|-----------|-----------|----------|------------|-------|
| Tenant reinsurance.....          | \$ 15,646 | \$ 9,790  | \$ 5,856 | \$ 44,254  | \$    |
| Merchandise sales.....           | 10,072    | 7,566     | 2,506    | 29,178     |       |
| Containerized storage.....       | 3,952     | 4,313     | (361)    | 11,259     |       |
| Truck rentals.....               | 3,640     | 4,106     | (466)    | 9,795      |       |
| Commercial property operations.. | 3,777     | 3,408     | 369      | 11,391     |       |
| Property management.....         | 667       | 644       | 23       | 2,026      |       |
|                                  | -----     | -----     | -----    | -----      | ----- |
| Total revenues.....              | \$ 37,754 | \$ 29,827 | \$ 7,927 | \$ 107,903 | \$    |
|                                  | -----     | -----     | -----    | -----      | ----- |
| Cost of operations:              |           |           |          |            |       |
| Tenant reinsurance .....         | 5,981     | 3,714     | 2,267    | 15,261     |       |
| Merchandise sales.....           | 7,708     | 6,347     | 1,361    | 22,812     |       |
| Containerized storage.....       | 3,565     | 3,570     | (5)      | 9,923      |       |
| Truck rentals.....               | 3,883     | 3,328     | 555      | 10,848     |       |
| Commercial property operations.. | 1,486     | 1,497     | (11)     | 4,393      |       |
| Property management.....         | 64        | 58        | 6        | 182        |       |
|                                  | -----     | -----     | -----    | -----      | ----- |
| Total cost of operations.....    | 22,687    | 18,514    | 4,173    | 63,419     |       |
|                                  | -----     | -----     | -----    | -----      | ----- |
| Depreciation and amortization:   |           |           |          |            |       |
| Tenant reinsurance.....          | -         | -         | -        | -          |       |
| Merchandise sales.....           | -         | -         | -        | -          |       |
| Containerized storage.....       | 239       | 166       | 73       | 657        |       |
| Truck rentals.....               | -         | -         | -        | -          |       |
| Commercial property operations.. | 664       | 643       | 21       | 1,992      |       |
| Property management.....         | -         | -         | -        | -          |       |
|                                  | -----     | -----     | -----    | -----      | ----- |
| Total depreciation.....          | 903       | 809       | 94       | 2,649      |       |
|                                  | -----     | -----     | -----    | -----      | ----- |
| Net Income:                      |           |           |          |            |       |
| Tenant reinsurance.....          | 9,665     | 6,076     | 3,589    | 28,993     |       |
| Merchandise sales.....           | 2,364     | 1,219     | 1,145    | 6,366      |       |
| Containerized storage.....       | 148       | 577       | (429)    | 679        |       |
| Truck rentals.....               | (243)     | 778       | (1,021)  | (1,053)    |       |
| Commercial property operations.. | 1,627     | 1,268     | 359      | 5,006      |       |
| Property management.....         | 603       | 586       | 17       | 1,844      |       |
|                                  | -----     | -----     | -----    | -----      | ----- |
| Total net operating income.....  | \$ 14,164 | \$ 10,504 | \$ 3,660 | \$ 41,835  | \$    |
|                                  | =====     | =====     | =====    | =====      | ===== |

Our ancillary operations have increased significantly in the three and nine months ended September 30, 2007 as compared to the same periods in 2006. This increase is attributable primarily to the self-storage facilities we acquired in the Shurgard merger, which has given us more locations in which to conduct our tenant reinsurance and merchandise activities, as well as due to additional commercial space acquired in the merger with Shurgard.

Tenant reinsurance operations: We reinsure policies offered through a non-affiliated insurance broker against losses to goods stored by tenants in our self-storage facilities. Revenues are comprised of fees charged to tenants electing such policies. Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjusting expenses.

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The significant increase in tenant reinsurance revenues is due primarily to the increase in properties associated with the acquisition of Shurgard. For the three months ended September 30, 2006 and 2007, respectively, tenant insurance revenues included \$745,000 and \$2,453,000 with respect to the Shurgard facilities in the United States; for the nine months ended September 30, 2006 and 2007, tenant insurance revenues included \$745,000 and \$6,992,000 with respect to the Shurgard facilities in the United States. For the three months ended September 30, 2006 and 2007, respectively, tenant insurance revenues included \$784,000 and \$2,544,000 with respect to the Shurgard facilities in Europe; for the nine months ended September 30, 2006 and 2007, tenant insurance revenues included \$784,000 and \$6,820,000 with respect to the Shurgard facilities in Europe.

Further contributing to our increase in tenant reinsurance revenues were higher rates, and an increase in the percentage of our existing tenants retaining such policies, with respect to our tenant insurance activities in the United States. For the three and nine months ended September 30, 2007, approximately 44.4% and 43.3%, respectively, of our self-storage tenant base had such policies, as compared to approximately 33.2% and 32.7% for the same periods in 2006.

The future level of tenant reinsurance revenues is largely dependent upon the number of new tenants electing to purchase policies, the level of premiums charged for such insurance, and the number of tenants that continue participating in the insurance program.

The future cost of operations will be dependent primarily upon the level of losses incurred, including the level of catastrophic events, such as hurricanes, that occur and affect our properties.

Merchandise and truck rental operations: Our subsidiaries sell locks, boxes, and packing supplies to our tenants as well as the general public. Revenues and cost of operations for these activities are included in the table above as "Merchandise Sales." In addition, at selected locations, our subsidiaries maintain trucks on site for rent to our self-storage customers and the general public on a short-term basis for local use. In addition, we also act as an agent for a national truck rental company to provide their rental trucks to customers for long-distance use. The revenues and cost of operations for these activities are included in the table above as "Truck rentals."

These activities generally serve as an adjunct to our self-storage operations providing our tenants with goods and services that they need in connection with moving and storing their goods.

The primary factors impacting the level of operations of these activities is the level of customer traffic at our self-storage facilities, including the level of move-ins. The significant increase in merchandise revenues is due primarily to the increase in properties associated with the acquisition of Shurgard. For the three months ended September 30, 2006 and 2007, respectively, merchandise revenues included \$929,000 and \$2,260,000 with respect to the Shurgard facilities in the United States; for the nine months ended September 30, 2006 and 2007, merchandise revenues included \$929,000 and \$6,738,000 with respect to the Shurgard facilities in the United States. For the three months ended September 30, 2006 and 2007, respectively, merchandise revenues included \$778,000 and \$2,231,000 with respect to the Shurgard facilities in Europe; for the nine months ended September 30, 2006 and 2007, merchandise revenues included \$778,000 and \$6,058,000 with respect to the Shurgard facilities in Europe.

For the three months ended September 30, 2006 and 2007, respectively, truck revenues included \$290,000 and \$524,000 with respect to the Shurgard

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facilities in the United States; for the nine months ended September 30, 2006 and 2007, truck revenues included \$290,000 and \$1,353,000 with respect to the Shurgard facilities in the United States.

Containerized storage operations: We have containerized storage facilities located in eight densely populated markets with above-average rent and income.

68

Rental and other income includes monthly rental charges to customers for storage of the containers, service fees charged for pickup and delivery of containers to customers' homes and businesses and certain non-core services which were eliminated, such as handling and packing customers' goods from city to city. Direct operating costs principally includes payroll, equipment lease expense, utilities and vehicle expenses (fuel and insurance).

We closed certain containerized storage locations; the results of these facilities for all periods presented have been reclassified to the line item "discontinued operations."

There can be no assurance as to the level of the containerized storage business's expansion, level of gross rentals, level of move-outs or profitability. We continue to evaluate the business's operations, based on which we have closed certain of these facilities in recent years, and we may decide to close additional facilities in the future.

Commercial property operations: Commercial property operations included in our consolidated financial statements include commercial space owned by the Company and entities consolidated by the Company. We have a much larger interest in commercial properties through our ownership interest in PSB. Our investment in PSB is accounted for using the equity method of accounting, and accordingly our share of PSB's earnings is reflected as "Equity in earnings of real estate entities," below.

Our commercial operations are comprised of 1,561,000 net rentable square feet of commercial space, which is principally operated at certain of the self-storage facilities. The significant increase in commercial property revenues is due principally to commercial space in the facilities we acquired from Shurgard in the United States. For the three months ended September 30, 2006 and 2007, respectively, commercial revenues included \$391,000 and \$701,000 with respect to the facilities we acquired from Shurgard. For the nine months ended September 30, 2006 and 2007, respectively, these acquired Shurgard facilities generated \$391,000 and \$2,136,000 in revenues.

Our commercial property operations consist primarily of facilities that are at a stabilized level of operations, and generally reflect the conditions in the markets in which they operate. Other than the continuing year-over-year growth due to the increase in commercial space in the Shurgard properties, we do not expect any significant growth in net operating income from this segment of our business for 2007.

EQUITY IN EARNINGS OF REAL ESTATE ENTITIES: In addition to our ownership of equity interests in PSB, we have interests in 12 entities owning 33 properties at September 30, 2007. (PSB and the limited partnerships are collectively referred to as the "Unconsolidated Entities"). Due to our limited ownership interest and limited control of these entities, we do not consolidate the accounts of these entities for financial reporting purposes. We manage each of these facilities for a management fee that is included in "Ancillary Operations."



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Equity in earnings of real estate entities includes our pro rata share of the net impact of gains/losses on sales of assets and impairment charges relating to the impending sale of real estate assets as well as our pro rata share of the impact of the application of EITF Topic D-42 on redemptions of preferred securities recorded by PSB. Our net pro rata share from these items resulted in a net decrease of equity in earnings of \$19,000 for the three months ended September 30, 2006 and a net increase of \$293,000 for the nine months ended September 30, 2006 (none for the same periods in 2007).

Our future equity income from PSB will be dependent entirely upon PSB's operating results. Our investment in PSB provides us with some diversification into another asset type. We have no plans of disposing of our investment in PSB. PSB's filings and selected financial information can be accessed through the Securities and Exchange Commission, and on its website, [www.psbusinessparks.com](http://www.psbusinessparks.com).

The Deconsolidated Shurgard Facilities include 11 properties in which we have a partial equity interest, acquired in the merger with Shurgard, and which are subject to mortgage loans aggregating approximately \$19 million at September 30, 2007. We commenced deconsolidating these properties effective May 24, 2007 due to a loss of control in the entities owning these properties; accordingly, equity in earnings of real estate entities includes, the operating results of these 11 properties and the associated interest expense incurred after May 24, 2007.

The "Other Investments" are comprised five limited partnerships, which own 22 properties, for which we held an approximate consistent level of equity interest throughout each of the periods presented. Our future earnings with

70

respect to the "Other Investments" will be dependent upon the operating results of the 22 self-storage facilities that these entities own. The operating characteristics of these facilities are similar to those of the Company's self-storage facilities, and are subject to the same operational issues as our self-storage facilities as discussed above.

See Note 5 to our condensed consolidated financial statements for the operating results of these entities for the three and nine months ended September 30, 2007 and 2006.

### OTHER INCOME AND EXPENSE ITEMS

**INTEREST AND OTHER INCOME:** Interest and other income was \$3,257,000 and \$6,337,000 for the three and nine months ended September 30, 2007, respectively, as compared to \$12,651,000 and \$27,773,000 for the three and nine months ended September 30, 2006, respectively. These decreases are due primarily to lower average cash balances. We had significant levels of uninvested cash in the three and nine months ended September 30, 2006 as we had issued preferred securities in anticipation of our cash requirements with respect to the Shurgard merger.

**DEPRECIATION AND AMORTIZATION:** Depreciation and amortization expense was \$147,767,000 and \$491,725,000 for the three and nine months ended September 30, 2007, respectively, as compared to \$113,463,000 and \$212,057,000 for the three and nine months ended September 30, 2006, respectively. The increases in depreciation and amortization for the three months ended September 30, 2007, as compared to the same period in 2006 are due primarily to \$53,320,000 and \$210,471,000 in amortization expense recorded during the three and nine months ended September 30, 2007, respectively, on the intangible assets, which were primarily acquired in the Shurgard merger. These intangible assets were valued in our purchase accounting analysis at \$565,341,000 and are being amortized relative to the expected future benefit of the tenants in place to each period.

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Amortization of the intangible assets is expected to be approximately \$37,757,000 in the fourth quarter of 2007.

The remainder of the increase in depreciation and amortization for the three and nine months ended September 30, 2007 as compared to the same periods in 2006 is due primarily to buildings acquired in the Shurgard merger and to our newly developed and acquired facilities. See Notes 2 and 3 to our condensed consolidated financial statements for further discussion of the Shurgard merger and the acquisition of tangible and intangible assets.

**GENERAL AND ADMINISTRATIVE:** General and administrative expense was \$11,416,000 and \$49,397,000 for the three and nine months ended September 30, 2007, respectively, as compared to \$36,242,000 and \$49,996,000 for the three and nine months ended September 30, 2006, respectively. General and administrative expense principally consists of state income taxes, investor relations expenses and corporate and executive salaries. In addition, general and administrative expenses includes expenses that vary depending on the Company's activity levels in certain areas, such as overhead associated with the acquisition and development of real estate facilities, employee severance and stock-based compensation, and product research and development expenditures.

For the three months ended September 30, 2007, general and administrative expense includes (i) development costs that were expensed with respect to terminated projects totaling \$1.3 million (\$9.3 million for the same period in 2006) and (ii) ongoing general and administrative expense related to our European operations for the entire quarter ended September 30, 2007 (includes amounts only from August 23, 2006 with respect to the same period in 2006). In addition, for the three months ended September 30, 2006, general and administrative expense includes integration expenses incurred in connection with the merger with Shurgard totaling approximately \$18.1 million and contract termination cost aggregating \$2.2 million. For the nine months ended September 30, 2007, general and administrative expense includes (i) development costs that were expensed with respect to terminated projects totaling \$1.6 million (\$9.3 million for the same period in 2006), (ii) additional expenses incurred in connection with the merger with Shurgard totaling approximately \$5.3 million (\$20.5 million for the same period in 2006), (iii) \$9.6 million related to our proposed offering of shares in our European business, (iv) \$2.0 million associated with our reorganization as a Maryland REIT and (v) ongoing general and administrative expense related to our European operations for the entire nine month period ended September 30, 2007 (includes amounts only from August 23, 2006 with respect to the same period in 2006). In addition, for the nine months ended September 30, 2006, we incurred contract termination costs of \$2.2 million.

71

We expect that for the fourth quarter of 2007, general and administrative expense will approximate \$10 million to \$13 million.

**INTEREST EXPENSE:** Interest expense was \$15,257,000 and \$48,772,000 for the three and nine months ended September 30, 2007, respectively, as compared to \$9,323,000 and \$12,752,000, respectively, for the same periods in 2006. Interest capitalized during the three and nine months ended September 30, 2007, was \$1,297,000 and \$3,011,000, respectively, compared to \$530,000 and \$1,599,000 for the same periods in 2006. The increase in interest expense is primarily due to \$44,382,000 in interest incurred on the debt and other obligations we assumed in the Shurgard merger for the nine months ended September 30, 2007 (\$7,970,000 for the same period in 2006), as well as \$1,797,000 of interest on borrowings against our line of credit. These amounts are partially offset by a decrease of \$679,000 in interest expense due to lower balances on our outstanding notes. See also Notes 6, 7 and 8 to our condensed consolidated financial statements for a

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schedule of our debt balances, principal repayment requirements, and average interest rates.

**GAIN ON DISPOSITION OF REAL ESTATE INVESTMENTS:** During the nine months ended September 30, 2007, we have received proceeds for partial condemnations and other disposals to certain of our self-storage facilities for an aggregate of \$2,008,000 and recorded a gain of \$1,137,000 on our condensed consolidated statements of income for the three and nine months ended September 30, 2007 as a result of these transactions.

On May 14, 2007, one of European subsidiaries, sold limited liability partner interests ("LLP Interests") it held in Shurgard Self-Storage SCA, ("Shurgard Europe"), also an indirect subsidiary of Public Storage, to various officers of the Company other than our chief executive officer. The aggregate proceeds of the sale were \$4,909,000. The sale price for the LLP Interests was the net asset value per LLP Interest using, among other items, information provided by an independent third party appraisal firm of the net asset value of Shurgard Europe as of March 31, 2007. The Company has a right to repurchase the LLP Interests (1) upon a purchaser's termination of employment or (2) for any reason, on or after May 14, 2008. The repurchase price is set at the lesser of (1) the then net asset value per share or (2) the original purchase price with a 10% compounded annual return. In connection with the sale of these LLP Interests, we recorded a gain of \$1,193,000 for the three and nine months ended September 30, 2007, representing the excess of the sales proceeds less the book value of the LLP Interests sold. The gain is reflected in gain on disposition of real estate investments on our accompanying condensed consolidated statements of income. The investment of these various officers is included in minority interest - other partnership interests on our accompanying condensed consolidated balance sheet at September 30, 2007 and their pro rata share of the earnings of Shurgard Europe are reflected in minority interest in income - other partnership interests on our accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2007.

During the three months ended September 30, 2006, we received \$466,000 of additional proceeds from a partial condemnation that occurred in 2005. These additional proceeds are reflected as a gain on disposition of real estate investments on our condensed consolidated statements of income for the three and nine months ended September 30, 2006. Also during the nine months ended September 30, 2006, we disposed of parcels of vacant land for an aggregate of \$4,970,000. The net proceeds were equal to the book value of these parcels; accordingly, no gain or loss was recorded.

**FOREIGN EXCHANGE GAIN:** At September 30, 2007, our European subsidiaries owed approximately (euro)389 million (\$556 million as of September 30, 2007) to our domestic subsidiaries. The loans are eliminated in consolidation for financial reporting purposes. We expect our European subsidiaries to obtain external financing in the next 12 to 24 months, which will fund the repayment of the loan. The loans which are denominated in Euros have not been hedged. The amount of US dollars that will be received on repayment will depend upon the exchange rates at the time. Based upon the change in estimated US dollars to be received caused by fluctuation in currency rates during each respective period, foreign currency translation gains of \$30.4 million and \$41.0 million, respectively, were recorded in the three and nine months ended September 30, 2007. The US Dollar exchange rate relative to the Euro was approximately 1.319, 1.347, and 1.426 at December 31, 2006, June 30, 2007, and September 30, 2007, respectively.

Future foreign exchange gains will be dependent primarily upon the movement of the Euro relative to the US Dollar, the level of our intercompany

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debt and our expectations with respect to repaying intercompany debt. At September 30, 2007 our European subsidiaries had intercompany balances payable to our United States operations totaling approximately \$556 million.

**HURRICANE CASUALTY GAIN:** Our policy is to record casualty losses or gains in the period the casualty occurs equal to the differential between (a) the book value of assets destroyed and (b) insurance proceeds, if any, that we expect to receive in accordance with our insurance contracts. Potential insurance proceeds that are subject to uncertainties, such as interpretation of deductible provisions of the governing agreements or the estimation of costs of restoration, are treated as a contingent proceeds in accordance with Statement of Financial Accounting Standards No. 5 ("SFAS 5"), and not recorded until the uncertainties are satisfied. During the first quarter of 2007, we recorded a casualty gain totaling \$2,665,000, representing the realization of such contingent proceeds relating to hurricanes which occurred in 2005.

**INCOME FROM DERIVATIVES, NET:** This represents a net gain as recognized for the changes in the fair market values of those derivative financial instruments that do not qualify for hedge accounting treatment under SFAS No. 133 combined with net payments from derivative instruments. The gain of \$117,000 for the three months ended September 30, 2007 is primarily due to gains of \$68,000 in changes in value of our interest rate swaps and currency forward contracts on the euro that do not qualify for hedge accounting combined with receipts of \$49,000 relative to certain interest rate swaps and foreign currency exchange derivatives acquired in the Shurgard merger as described under Note 3 to our condensed consolidated financial statements. The gain of \$1,126,000 for the nine months ended September 30, 2007 is primarily due to gains of \$1,205,000 in changes in value of our interest rate swaps and currency forward contracts on the euro that do not qualify for hedge accounting combined with payments of \$79,000 relative to certain interest rate swaps and foreign currency exchange derivatives acquired in the Shurgard merger.

**MINORITY INTEREST IN INCOME:** Minority interest in income represents the income allocable to equity interests in Consolidated Entities, which are not owned by the Company. The following table summarizes minority interest in income for the three and nine months ended September 30, 2007 and 2006:

73

|  | Three Months Ended<br>September 30, |          |          |         |
|--|-------------------------------------|----------|----------|---------|
|  | 2007                                | 2006     | Change   | 2007    |
|  | (Amounts in thousand)               |          |          |         |
| Preferred partnership interests (a).....     | \$ 5,403                            | \$ 5,403 | \$ -     | \$ 16,2 |
| Convertible Partnership Units (b).....       | 121                                 | 120      | 1        | 13      |
| Shurgard U.S. minority interests (c).....    | 180                                 | 191      | (11)     | 62      |
| Shurgard European minority interests (d).... | (1,456)                             | (1,279)  | (177)    | (7,27   |
| European investors (e).....                  | (109)                               | -        | (109)    | (10     |
| Other minority interests (f).....            | 4,165                               | 4,155    | 10       | 12,03   |
|  | \$ 8,304                            | \$ 8,590 | \$ (286) | \$ 21,6 |



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- (a) On May 9, 2006, one of our Consolidated Entities issued \$100,000,000 of its 7.25% Series J Preferred Partnership Units. Accordingly, ongoing distributions with respect to preferred partnership interest have increased.
- (b) These amounts reflect the minority interests represented by the Convertible Partnership Units (see Note 10 to our condensed consolidated financial statements).
- (c) These amounts reflect income allocated to minority interests in entities we acquired in the merger with Shurgard, and include \$159,000 and \$555,000 in depreciation in the three and nine months ended September 30, 2007, respectively, as compared to \$55,000 for each of the same periods in 2006.
- (d) These amounts reflect income allocated to our minority partner's 80% interest in the European joint ventures, First Shurgard and Second Shurgard. These amounts are negative because the related joint ventures operations are at a loss position. Included in these minority interest amounts is (i) depreciation expense for the three and nine months ended September 30, 2007, of \$2,674,000 and \$8,281,000, respectively, compared to \$742,000 for each of the same periods in 2006, (ii) interest expense for the three and nine months ended September 30, 2007, of \$4,036,000 and \$11,082,000, respectively, compared to \$1,829,000 for each of the same periods in 2006 and (iii) derivatives and foreign exchange gains of \$603,000 and \$2,509,000, respectively, compared to \$66,000 for each of the same periods in 2006.
- (e) These amounts reflect income allocated to the interest owned by various officers of the Company, as described on Note 10 to our consolidated financial statement. These amounts include depreciation expense aggregating \$190,000 for the three and nine months ended September 30, 2007.
- (f) These amounts reflect income allocated to minority interests that were outstanding consistently throughout the three and nine months ended September 30, 2007 and 2006. Included in minority interest in income is \$128,000 and \$454,000 in depreciation expense for the three and nine months ended September 30, 2007, respectively, as compared to \$108,000 and \$500,000 for the same periods in 2006.

Other minority interests reflect income allocated to minority interests that have maintained a consistent level of interest throughout 2006 and the nine months ended September 30, 2007, comprised of investments in the Consolidated Entities described in Note 10 to our condensed consolidated financial statements. The level of income allocated to these interests in the future is dependent upon the operating results of the storage facilities that these entities own, as well as any minority interests that the Company acquires in the future.

### LIQUIDITY AND CAPITAL RESOURCES

We believe that our internally generated net cash provided by operating activities will continue to be sufficient to enable us to meet our operating expenses, capital improvements, debt service requirements and distributions to 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 used to make distributions to our shareholders (see "REQUIREMENT TO PAY DISTRIBUTIONS" below). However, despite the significant distribution requirements, we have been able to retain a significant amount of our operating cash flow. The following table summarizes

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our ability to fund distributions to the minority interest, capital improvements to maintain our facilities, 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.

74

|   | Nine Months Ended September |         |
|---|-----------------------------|---------|
|   | 2007                        | 2006    |
|   | (Amounts in thousands)      |         |
| Net cash provided by operating activities (a).....                                    | \$ 751,591                  | \$ 582, |
| Distributions to minority interest (Preferred Units).....                             | (16,209)                    | (13,    |
| Distributions to minority interest (common equity).....                               | (15,828)                    | (11,    |
| Cash from operations allocable to our shareholders.....                               | 719,554                     | 557,    |
| Capital improvements to maintain our facilities.....                                  | (49,453)                    | (44,    |
| Remaining operating cash flow available for distributions to our<br>shareholders..... | 670,101                     | 513,    |
| Distributions paid:   |                             |         |
| Preferred share dividends.....  | (176,424)                   | (159,   |
| Equity Shares, Series A dividends.....  | (16,068)                    | (16,    |
| Distributions to common shareholders.....   | (255,022)                   | (213,   |
| Cash available for principal payments on debt and reinvestment..                      | \$ 222,587                  | \$ 124, |

(a) Represents net cash provided from operating activities as presented on our September 30, 2007 Condensed Consolidated Statements of Cash Flows.

Cash available for principal payments on debt and reinvestment increased from \$124.5 million in the nine months ended September 30, 2006 to \$222.6 million in the nine months ended September 30, 2007 principally due to improved operations from our Same Store group of facilities, continued growth in operations from our newly developed and recently expanded facilities, continued growth in our recently acquired self-storage facilities including the facilities acquired in the merger with Shurgard, as well as additional tax depreciation with respect to the assets acquired in the merger with Shurgard which serves to reduce our required distributions.

Our financial profile is characterized by a low level of debt-to-total capitalization and a conservative dividend payout ratio with respect to our common shares. We expect to fund our growth strategies and debt obligations with (i) cash on hand at September 30, 2007, (ii) internally generated retained cash flows and (iii) proceeds from issuing equity securities. In general, our current strategy is to continue to finance our growth with permanent capital; in the form of either common or preferred equity.

Over the past three years, we have funded substantially all of our

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acquisitions with permanent capital (both common and preferred securities). 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. 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 any 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 enable us to refinance higher coupon preferred shares with new preferred stock 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 outstanding series of preferred shares are "Baa1" by Moody's and "BBB+" by Standard & Poor's.

On March 27, 2007, we entered into a five-year revolving credit agreement (the "Credit Agreement") with an aggregate limit with respect to borrowings, letters of credit and foreign currency borrowings in Euros or British pounds of \$300 million. Amounts drawn under the Credit Agreement bear an

75

annual interest rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.35% to LIBOR plus 1.00% depending on our credit ratings (LIBOR plus 0.35% at September 30, 2007). In addition, we are required to pay a quarterly facility fee ranging from 0.10% per annum to 0.25% per annum depending on our credit ratings (0.10% per annum at September 30, 2007). We had no outstanding borrowings on our revolving line of credit at September 30, 2007 or November 8, 2007.

The Credit Agreement includes various covenants, the more significant of which require us to (i) maintain a leverage ratio (as defined therein) of less than 0.55 to 1.00, (ii) maintain certain fixed charge and interest coverage ratios (as defined therein) of not less than 1.5 to 1.0 and 1.75 to 1.0, respectively, and (iii) maintain a minimum total shareholders' equity (as defined therein). We were in compliance with all covenants of the Credit Agreement at September 30, 2007.

**RECENT ISSUANCE AND REDEMPTION OF PREFERRED SECURITIES:** One of our financing objectives over the past several years has been to reduce our average cost of capital with respect to our preferred securities. Accordingly, we have redeemed higher rate preferred securities outstanding and have financed the redemption with cash on-hand or from the proceeds from the issuance of lower rate preferred securities.

On January 9, 2007, we issued our 6.625% Series M Preferred Stock for gross proceeds of \$500 million. On January 18, 2007, we redeemed our 7.625% Series T Cumulative Preferred Shares totaling \$152.2 million and on February 19, 2007, we redeemed our 7.625% Series U Cumulative Preferred Shares totaling \$150.0 million. These redemptions were funded with cash on hand and funds raised through the issuance of our Series M preferred stock. On July 2, 2007, we issued our 7.000% Series N Preferred Shares for gross proceeds of \$172.5 million. We currently have approximately \$172.5 million of additional preferred securities that became redeemable at our option as of September 30, 2007. We have not called this series for redemption due to the state of current credit markets and our belief that we could not issue a similar preferred security at a lower rate.

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From time-to-time, we may raise additional capital primarily through the issuance of lower rate preferred securities, in advance of the redemption dates to ensure that we have available funds to redeem these securities. The timing and our ability to issue additional preferred securities to finance the redemption of these preferred securities depends on many factors and accordingly, there is no assurance that we will be able to raise the necessary capital and at appropriate rates to redeem these securities.

**EUROPEAN FINANCING:** As we previously disclosed, we attempted to liquidate a portion of our investment in our European subsidiaries through an initial public offering, and although market conditions are not favorable at this time for such a transaction, we continue to evaluate our alternatives and still believe that a public entity is the best structure for our European operations' long-term growth. At September 30, 2007, our European subsidiaries owed approximately (euro)389 million (\$556 million as of September 30, 2007) to our domestic subsidiaries. We expect our European subsidiaries to obtain external financing in the next 12 to 24 months, which will fund the repayment of the loan, resulting in the receipt of additional cash. The loans, which are denominated in Euros have not been hedged, to limit our exposure to fluctuation in exchange rates between the Euro and the US Dollar; and; as a result, the amount of U.S. Dollars that will be received on repayment will depend upon exchange rates at the time.

**REQUIREMENT TO PAY DISTRIBUTIONS:** We have operated, and intend to continue to operate, in such a manner as to qualify as a REIT under the Internal Revenue Code of 1986, but no assurance can be given that we will at all times so qualify. To the extent that the Company continues to qualify as a REIT, we will not be taxed, with certain limited exceptions, on the taxable income that is distributed to our shareholders, provided that at least 90% of our taxable income is so distributed to our shareholders prior to filing of the Company's tax return. We have satisfied the REIT distribution requirement since 1980.

We estimate the distribution requirement with respect to our preferred shares outstanding at September 30, 2007 to be approximately \$241 million per year. The annual distribution requirement with respect to our Series N Preferred Shares issued on July 2, 2007 is approximately \$12.1 million. We estimate that the annual distribution requirement with respect to the preferred partnership units outstanding at September 30, 2007, to be approximately \$21.6 million per year.

76

During the nine months ended September 30, 2007, we paid dividends totaling \$255,022,000 (\$1.50 per common share) to the holders of our common shares. Based upon shares outstanding at November 8, 2007 and a quarterly distribution of \$0.50 per share, which was declared by our Board on November 8, 2007 and payable on December 31, 2007, to shareholders of record as of December 14, 2007, we estimate a dividend payment with respect to our common shares of approximately \$85 million for the fourth quarter of 2007.

During each of the nine months ended September 30, 2007 and 2006, we paid cash dividends totaling \$16,068,000 to the holders of our Equity Shares, Series A. With respect to the depositary shares representing Equity Shares, Series A, we have no obligation to pay distributions if no distributions are paid to the common shareholders. To the extent that we do pay common distributions in any year, the holders of the depositary shares receive annual distributions equal to the lesser of (i) five times the per share dividend on the common share or (ii) \$2.45. The depositary shares are non-cumulative, and have no preference over our common shares either as to dividends or in liquidation. With respect to the Equity Shares, Series A outstanding at September 30, 2007, we estimate the total regular distribution for the fourth

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quarter of 2007 to be approximately \$5.4 million.

**CAPITAL IMPROVEMENT REQUIREMENTS:** During 2007, we have budgeted approximately \$75,000,000 for capital improvements for our facilities. Capital improvements include major repairs or replacements to the facilities, which keep the facilities in good operating condition and maintain their visual appeal. Capital improvements do not include costs relating to the development or expansion of facilities. During the nine months ended September 30, 2007, we incurred capital improvements of approximately \$49,453,000. Capital improvements include major repairs or replacements to the facilities that maintain the facilities' existing operating condition and visual appeal. Capital improvements do not include costs relating to the development or expansion of facilities.

**DEBT SERVICE REQUIREMENTS:** At September 30, 2007, we have total outstanding debt of approximately \$1 billion. We do not believe we have any significant refinancing risks with respect to our debt.

On January 2, 2007, we retired approximately \$429 million of debt assumed from Shurgard that was secured by substantially all of our wholly-owned facilities in Europe.

Our portfolio of real estate facilities remains substantially unencumbered. At September 30, 2007, we have domestic mortgage debt outstanding of \$233 million, which encumbers 86 self-storage facilities with an aggregate net book value of approximately \$599 million. In Europe, mortgage debt at September 30, 2007 totaled \$353 million and encumbers 64 facilities, owned by consolidated joint ventures (we have a 20% interest in each joint venture), with an aggregate net book value of approximately \$482 million at September 30, 2007.

We anticipate that our retained operating cash flow will continue to be sufficient to enable us to make scheduled principal payments. See Notes 7 and 8 to our condensed consolidated financial statements for approximate principal maturities of such borrowings. It is our current intention to fully amortize our outstanding debt as opposed to refinance debt maturities with additional debt. Alternatively, we may prepay debt and finance such prepayments with retained operating cash flow or proceeds from the issuance of preferred securities.

**ACQUISITION AND DEVELOPMENT OF FACILITIES:** During 2007, we will continue to seek to acquire additional self-storage facilities from third parties; however, it is difficult to estimate the amount of third party acquisitions we will undertake.

At September 30, 2007, we have a development "pipeline" of 39 projects in the U.S. and 16 projects in Europe, consisting of newly developed self-storage facilities, conversion of space at facilities that was previously used for containerized storage and expansions to existing self-storage facilities. At September 30, 2007, we have acquired the land for all of the U.S. projects and nine of the projects in Europe.

The development and fill-up of these storage facilities is subject to significant contingencies such as obtaining appropriate governmental approvals. We estimate that the amount remaining to be spent to complete development to be approximately \$191.1 million and will be incurred over the next 24 months. The following table sets forth certain information with respect to our development pipeline.

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### DEVELOPMENT PIPELINE SUMMARY AS OF SEPTEMBER 30, 2007

|   | Number<br>of<br>projects | Net<br>rentable<br>sq. ft. | Total<br>estimated<br>development<br>costs | Costs incurred<br>through<br>09/30/07 |
|---|--------------------------|----------------------------|--|---------------------------------------|
| (Amounts in thousands, except number of projects) |                          |                            |  |                                       |
| U.S. under construction                           | 16                       | 751                        | \$ 65,195                                  | \$ 37,820                             |
| U.S. in development, land acquired                | 23                       | 960                        | 85,262                                     | 5,759                                 |
| European projects in construction                 | 9                        | 495                        | 96,131                                     | 57,967                                |
| European projects under development               | 7                        | 298                        | 48,131                                     | 2,111                                 |
| <b>Total Development Pipeline</b>                 | <b>55</b>                | <b>2,504</b>               | <b>\$ 294,719</b>                          | <b>\$ 103,657</b>                     |

The development and fill-up of these storage facilities is subject to significant contingencies such as obtaining appropriate governmental approvals. We estimate that the amount remaining to be spent to complete development will be incurred over the next 24 months. Substantially all of the future costs for the seven European projects that are in construction will be funded by the Shurgard European Joint Ventures, in which we have a 20% interest, and which have a substantial degree of funding by debt. The future costs with respect to all other development projects will be funded by us.

**CONTRACTUAL OBLIGATIONS:** Our significant contractual obligations at September 30, 2007 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

|                                 | Total              | 2007             | 2008              | 2009              | 2010             |
|---------------------------------|--------------------|------------------|-------------------|-------------------|------------------|
| Long-term debt (1) .....        | \$1,163,719        | \$ 12,114        | \$ 243,951        | \$ 214,326        | \$ 48,137        |
| Capital leases (2).....         | 43,245             | 193              | 767               | 782               | 726              |
| Operating leases (3).....       | 270,647            | 7,318            | 19,257            | 15,817            | 12,083           |
| Construction commitments (4)... | 65,539             | 53,260           | 12,279            | -                 | -                |
| <b>Total.....</b>               | <b>\$1,543,150</b> | <b>\$ 72,885</b> | <b>\$ 276,254</b> | <b>\$ 230,925</b> | <b>\$ 60,946</b> |

(1) Amounts include interest payments on our notes payable based on their contractual terms. See Note 7 to our condensed consolidated financial statements for additional information on our notes payable. Debt to Joint Venture Partner is not reflected since we have not exercised our option to acquire our partner's interest.

(2) This line item reflects amounts due on five European properties with commitments extending to April 2052 that we assumed in the merger with Shurgard.

(3) We lease trucks, land, equipment and office space under various operating leases. Certain leases are cancelable with substantial penalties.

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- (4) Includes obligations for facilities currently under construction at September 30, 2007 as described above under "Acquisition and Development of Facilities."

In January 2004, we entered into a joint venture partnership with an institutional investor for the purpose of acquiring up to \$125,000,000 of existing self-storage properties in the United States from third parties (the "Acquisition Joint Venture"). As described more fully in Note 8 to our September 30, 2007 condensed consolidated financial statements, our partner's equity

78

contributions with respect to certain transactions are classified as debt under the caption "Debt to Joint Venture Partner" in our condensed consolidated balance sheets. At September 30, 2007, our Debt to Joint Venture Partner was \$37,395,000. For a six-month period beginning 54 months after formation, we have the right to acquire our partner's interest based upon the market value of the properties. If we do not exercise our option, our partner can elect to purchase our interest in the properties during a six-month period commencing upon expiration of our six-month option period. If our partner fails to exercise its option, the Acquisition Joint Venture will be liquidated and the proceeds will be distributed to the partners according to the joint venture agreement. We have not included our Debt to Joint Venture Partner as a contractual obligation in the table above, since we only have the right, rather than a contractual obligation, to acquire our partner's interest.

OFF-BALANCE SHEET ARRANGEMENTS: At September 30, 2007 we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

STOCK REPURCHASE PROGRAM: Our Board has authorized the repurchase from time to time of up to 25,000,000 shares of our common stock on the open market or in privately negotiated transactions. During 2004, we repurchased 445,700 shares for approximately \$20.3 million. During 2005, we repurchased 84,000 shares for approximately \$5.0 million. During 2006 or 2007 (through November 8, 2007), we did not repurchase any shares. From the inception of the repurchase program through September 30, 2007, we have repurchased a total of 22,201,720 common shares at an aggregate cost of approximately \$567.2 million.

### ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

To limit our exposure to market risk, we principally finance our operations and growth with permanent equity capital consisting either of common shares or preferred shares. At September 30, 2007, our debt as a percentage of total shareholders' equity (based on book values) was 11.9%.

Our preferred shares are not redeemable at the option of the holders. Our Series V shares are currently redeemable. Except under certain conditions relating to the Company's qualification as a REIT, the preferred shares are not redeemable by the Company prior to the following dates: Series W - October 6, 2008, Series X - November 13, 2008, Series Y - January 2, 2009, Series Z - March 5, 2009, Series A - March 31, 2009, Series B - September 30, 2009, Series C - September 13, 2009, Series D - February 28, 2010, Series E - April 27, 2010, Series F - August 23, 2010, Series G - December 12, 2010, Series H - January 19, 2011, Series I - May 3, 2011, Series K - August 8, 2011, Series L - October 20, 2011, Series M - January 9, 2012 and Series N - July 2, 2012. On or after the respective dates, each of the series of preferred shares will be redeemable at the option of the Company, in whole or in part, at \$25 per depositary share (or share in the case of the Series Y), plus accrued and unpaid dividends through the redemption date.

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Our market risk sensitive instruments include notes payable and borrowing on bank credit facilities, which totaled \$1,004,507,000 and none, respectively, at September 30, 2007.

We are exposed to changes in interest rates primarily from the floating rate debt arrangements we acquired in the merger with Shurgard.

We have foreign currency exposures related to our investment in the construction, acquisition, and operation of storage centers in countries outside the U.S. to the extent such activities are financed with financial instruments or equity denominated in non-functional currencies. The aggregate book value of such real estate and intangibles was approximately \$1.7 billion at September 30, 2007. Since all foreign debt is denominated in the corresponding functional currency, our currency exposure is limited to our equity investment in those countries. Countries in which Shurgard had exposure to foreign currency fluctuations include Belgium, France, the Netherlands, Sweden, Denmark, Germany and the United Kingdom.

The table below summarizes annual debt maturities and weighted-average interest rates on our outstanding debt at the end of each year (based on relevant LIBOR of 5.12% and a EURIBOR of 4.41% at September 30, 2007 and the applicable forward curve for following years) and fair values required to evaluate our expected cash-flows under debt agreements and our sensitivity to interest rate changes at September 30, 2007 (dollar amounts in thousands).

79

|  | 2007     | 2008      | 2009       | 2010      | 2011      | Thereafter |
|--|----------|-----------|------------|-----------|-----------|------------|
| Fixed rate debt.....                   | \$ 2,154 | \$ 23,961 | \$ 12,365  | \$ 14,457 | \$228,197 | \$ 363,598 |
| Average interest rate..                | 6.52%    | 6.37%     | 6.01%      | 6.10%     | 5.83%     | 5.79%      |
| Variable rate debt (1).                | \$ -     | \$ -      | \$ -       | \$ -      | \$ -      | \$ -       |
| Average interest rate..                |          |           |            |           |           |            |
| Variable rate EURIBOR<br>debt (2)..... | \$ 856   | \$184,256 | \$ 167,569 | \$ -      | \$ -      | \$ -       |
| Average interest rate..                | 6.11%    | 6.11%     | 6.11%      |           |           |            |
| Interest rate swaps                    |          |           |            |           |           |            |
| Swap on EURIBOR.....                   | \$ -     | \$ 933    | \$ 2,175   | \$ -      | \$ -      | \$ -       |

(1) Amounts include borrowings under our line of credit, which expires in 2012.

(2) First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to (euro)271 million (\$386.5 million as of September 30, 2007). As of September 30, 2007, the available amount under those credit facilities was in aggregate (euro)22.5 million (\$32.1 million).

At September 30, 2007, we were party to pay-fixed, receive-variable interest rate swaps. The notional amounts, the weighted-average pay rates and the terms of these agreements are summarized as follows:



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|                                   | 2007     | 2008     | 2009  | 2010  | 2011  | Thereafter |
|-----------------------------------|----------|----------|-------|-------|-------|------------|
|                                   | -----    | -----    | ----- | ----- | ----- | -----      |
| Notional amounts (in millions)... | \$ 248.0 | \$ 122.0 | \$ -  | \$ -  | \$ -  | \$ -       |
| Weighted average interest rate... | 3.75%    | 3.72%    | -     | -     | -     | -          |

Based on our outstanding variable-rate EURIBOR debt and interest rate swaps at September 30, 2007, a hypothetical increase in the interest rates of 100 basis points would cause the value of our derivative financial instruments to increase by \$2.5 million. Conversely, a hypothetical decrease in the interest rates of 100 basis points would cause the value of our derivative financial instruments to decrease by \$2.6 million.

On January 2, 2007, we prepaid the (euro)325 million collateralized notes (\$429 million at December 31, 2006) at our European operations that were otherwise payable in 2011. We also terminated the related European currency and interest rate hedges. Accordingly, the remaining debt in Europe relates to the joint venture properties, in which we have a 20% equity interest, and which are consolidated for financial reporting purposes.

#### ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports the Company files and submits under the 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 the Company's management, including its 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) 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. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are substantially more limited than those it maintains with respect to its consolidated subsidiaries.

80

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a - 15(e) and 15d - 15(e) under the Securities Act of 1934 as amended) as of the end of the period covered by this report. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

There have not been any changes in our internal control over financial

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reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

81

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

The information set forth under the heading "Legal Matters" in Note 15 to the Condensed Consolidated Financial Statements in this Form 10-Q is incorporated by reference in this Item 1.

#### ITEM 1A. RISK FACTORS

As of September 30, 2007, no material changes had occurred in our risk factors as discussed in Item 1A of the Public Storage, Inc. Annual Report on Form 10-K for the year ended December 31, 2006.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On June 12, 1998, our Board authorized the repurchase from time to time of up to 10,000,000 common shares on the open market or in privately negotiated transactions. On subsequent dates our Board increased the repurchase authorization, the last being April 13, 2001, when our Board increased the repurchase authorization to 25,000,000 shares. The Company has repurchased a total of 22,201,720 common shares under this authorization. The Company did not repurchase any common shares during the nine months ended September 30, 2007.

#### ITEM 6. EXHIBITS

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

82

### SIGNATURES

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

DATED: November 9, 2007

PUBLIC STORAGE

By: /s/ John Reyes

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

83

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### 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 Anvestment trust. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2007 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 June 6, 2007 and incorporated by reference herein.
- 3.3 Articles Supplementary for Public Storage Equity Shares, Series A. Filed with the Registrant's Current Aeport on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.4 Articles Supplementary for Public Storage Equity Shares, Series AAA. Filed with the Registrant's Current Aeport on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.5 Articles Supplementary for Public Storage 7.500% Cumulative Preferred Shares, Series V. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein. R
- 3.6 Articles Supplementary for Public Storage 6.500% Cumulative Preferred Shares, Series W. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein. R
- 3.7 Articles Supplementary for Public Storage 6.450% Cumulative Preferred Shares , Series X. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.8 Articles Supplementary for Public Storage 6.850% Cumulative Preferred Shares, Series Y. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.9 Articles Supplementary for Public Storage 6.250% Cumulative Preferred Shares, Series Z. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.10 Articles Supplementary for Public Storage 6.125% Cumulative Preferred Shares, Series A. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.11 Articles Supplementary for Public Storage 7.125% Cumulative Preferred Shares, Series B. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein. R
- 3.12 Articles Supplementary for Public Storage 6.600% Cumulative Preferred Shares, Series C. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.13 Articles Supplementary for Public Storage 6.180% Cumulative Preferred Shares, Series D. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.

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- 3.14 Articles Supplementary for Public Storage 6.750% Cumulative Preferred Shares, Series E. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein. R
- 3.15 Articles Supplementary for Public Storage 6.450% Cumulative Preferred Shares, Series F. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.16 Articles Supplementary for Public Storage 7.000% Cumulative Preferred Shares, Series G. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.

84

- 3.17 Articles Supplementary for Public Storage 6.950% Cumulative Preferred Shares, Series H. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.18 Articles Supplementary for Public Storage 7.250% Cumulative Preferred Shares, Series I. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.19 Articles Supplementary for Public Storage 7.250% Cumulative Preferred Shares, Series K. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.20 Articles Supplementary for Public Storage 6.750% Cumulative Preferred Shares, Series L. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.21 Articles Supplementary for Public Storage 6.625% Cumulative Preferred Shares, Series M. Filed with the Aegistrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 3.22 Articles Supplementary for Public Storage 7.000% Cumulative Preferred Shares, Series N. Filed with the Aegistrant's Current Report on Form 8-K dated June 28, 2007 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 Limited Partnership Agreement of PSAF Development Partners, L.P. Filed

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- with PSI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.4 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.
  - 10.5 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.
  - 10.6 Limited Partnership Agreement of PSAC Development Partners, L.P. Filed with PSI's Current Report on Form 8-K dated November 15, 1999 (SEC File No. 001-0839) and incorporated herein by reference.
  - 10.7 Agreement of Limited Liability Company of PSAC Storage Investors, L.L.C. Filed with PSI's Current Report on Form 8-K dated November 15, 1999 (SEC File No. 001-0839) and incorporated herein by reference.
  - 10.8 Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. Filed with PSI's Annual Report on Form 10-K for the year ended December 31, 1999 (SEC File No. 001-0839) and incorporated herein by reference.
- 85
- 10.9 Amendment to Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 (SEC File No. 001-0839) and incorporated herein by reference.
  - 10.10 Second Amendment to Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
  - 10.11 Third Amendment to Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
  - 10.12 Limited Partnership Agreement of PSAF Acquisition Partners, L.P. Filed with PSI's Annual Report on Form 10-K for the year ended December 31, 2003 (SEC File No. 001-0839) and incorporated herein by reference.
  - 10.13 Credit Agreement by and among Registrant, Wells Fargo Bank, National Association and Wachovia Bank, National Association as co-lead arrangers, and the other financial institutions party thereto, dated March 27, 2007. Filed with PSI's Current Report on Form 8-K on April 2, 2007 (SEC File No. 001-0839) and incorporated herein by reference.
  - 10.14 Senior Credit Agreement dated May 26, 2003, as amended by Amendment Agreements dated July 11, 2003 and December 2, 2003, by and among First Shurgard Sprl, First Shurgard Finance Sarl, First Shurgard Deutschland GmbH, Societe Generale and others. Incorporated by reference to Exhibit 10.1 filed with the Current Report on Form 8-K dated February 21, 2005 filed by Shurgard Storage Centers, Inc. ("Shurgard") (SEC File No. 001-11455).

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- 10.15 Amendment and Waiver Agreement dated February 21, 2005 to the Senior Credit Agreement dated May 26, 2003, as amended as of December 2, 2003, by and among First Shurgard Sprl, First Shurgard Finance Sarl, First Shurgard Deutschland GmbH, Societe Generale and others. Incorporated by reference to Exhibit 10.2 filed with the Current Report on Form 8-K dated February 21, 2005 filed by Shurgard (SEC File No. 001-11455).
- 10.16 Credit Facility Agreement dated July 12, 2004, between Second Shurgard SPRL, Second Shurgard Finance SARL, the Royal Bank of Scotland as Mandated Lead Arranger, the Royal Bank of Scotland PLC as Facility Agent. Incorporated by reference to Exhibit 10.43 filed with the Report on Form 10-Q for the quarter ended June 30, 2004 filed by Shurgard (SEC File No. 001-11455).
- 10.17\* Employment Agreement between Registrant and B. Wayne Hughes dated as of November 16, 1995. Filed with PSI's Annual Report on Form 10-K for the year ended December 31, 1995 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.18\* Shurgard Storage Centers, Inc. 1995 Long Term Incentive Compensation Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement dated June 8, 1995 filed by Shurgard (SEC File No. 001-11455).
- 10.19\* Shurgard Storage Centers, Inc. 2000 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.27 Annual Report on Form 10-K for the year ended December 31, 2000 filed by Shurgard (SEC File No. 001-11455).
- 10.20\* Shurgard Storage Centers, Inc. 2004 Long Term Incentive Compensation Plan. Incorporated by reference to Appendix A of Definitive Proxy Statement dated June 7, 2004 filed by Shurgard (SEC File No. 001-11455).
- 10.21\* Public Storage, Inc. 1996 Stock Option and Incentive Plan. Filed with PSI's Annual Report on Form 10-K for the year ended December 31, 2000 (SEC File No. 001-0839) and incorporated herein by reference.
- 86
- 10.22\* Public Storage, Inc. 2000 Non-Executive/Non-Director Stock Option and Incentive Plan. Filed with PSI's Registration Statement on Form S-8 (SEC File No. 333-52400) and incorporated herein by reference.
- 10.23\* Public Storage, Inc. 2001 Non-Executive/Non-Director Stock Option and Incentive Plan. Filed with PSI's Registration Statement on Form S-8 (SEC File No. 333-59218) and incorporated herein by reference.
- 10.24\* 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.
- 10.25\* 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.
- 10.26\* 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.
- 10.27\* 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

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ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.

- 10.28\* Public Storage, Inc. Performance Based Compensation Plan for Covered Employees. Filed with PSI's Current Report on Form 8-K dated May 11, 2005 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.29\* 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.
- 10.30\* 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.
- 10.31\* 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.
- 10.32 Form of Stock Purchase Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference.
- 10.33\* 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.
- 11 Statement Re: Computation of Earnings per Share. Filed herewith.
- 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. Filed herewith.
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

\* Compensatory benefit plan or arrangement or management contract.

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