Public Storage
Form 10-Q
May 10, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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.

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

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

[ ] Yes [X] No

Indicate the number of the registrant's outstanding common shares of beneficial interest, as of May 8, 2013:

Common Shares of beneficial interest, $.10 par value per share – 171,858,839 shares

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PUBLIC STORAGE

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BALANCE SHEETS

(Amounts in thousands, except share data)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 398,252	$ 17,239
Real estate facilities, at cost:		
Land	2,864,996	2,863,464
Buildings	8,188,436	8,170,355
	11,053,432	11,033,819
Accumulated depreciation	(3,825,115)	(3,738,130)
	7,228,317	7,295,689
Construction in process	64,022	36,243
	7,292,339	7,331,932
Investments in unconsolidated real estate entities	717,264	735,323
Goodwill and other intangible assets, net	207,004	209,374
Loan receivable from unconsolidated real estate entity	398,565	410,995
Other assets	88,127	88,540
Total assets	$ 9,101,551	$ 8,793,403
LIABILITIES AND EQUITY		
Borrowings on bank credit facility	$ -	$ 133,000
Notes payable	142,419	335,828
Accrued and other liabilities	205,129	201,711
Total liabilities	347,548	670,539
Commitments and contingencies (Note 12)		
Equity:		
Public Storage shareholders' equity:		
Preferred Shares, $0.01 par value, 100,000,000 shares authorized, 142,500 shares issued (in series) and outstanding, (113,500 at December 31, 2012), at liquidation preference	3,562,500	2,837,500
Common Shares, $0.10 par value, 650,000,000 shares authorized, 171,534,957 shares issued and outstanding (171,388,286 shares at December 31, 2012)	17,154	17,139
Paid-in capital	5,498,782	5,519,596
Accumulated deficit	(331,984)	(279,474)
Accumulated other comprehensive loss	(20,889)	(1,005)
Total Public Storage shareholders' equity	8,725,563	8,093,756

Permanent noncontrolling interests	28,440	29,108
Total equity	8,754,003	8,122,864
Total liabilities and equity	$ 9,101,551	$ 8,793,403

See accompanying notes.

PUBLIC STORAGE

INCOME STATEMENTS

(Amounts in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Revenues:		
Self-storage facilities	$ 439,665	$ 410,559
Ancillary operations	31,235	29,276
	470,900	439,835
Expenses:		
Self-storage cost of operations	140,993	142,193
Ancillary cost of operations	9,396	9,518
Depreciation and amortization	91,001	86,824
General and administrative	18,253	16,405
	259,643	254,940
Operating income	211,257	184,895
Interest and other income	5,581	5,655
Interest expense	(3,497)	(5,334)
Equity in earnings of unconsolidated real estate entities	11,643	9,115
Foreign currency exchange (loss) gain	(12,737)	12,157
Income from continuing operations	212,247	206,488
Discontinued operations	-	234
Net income	212,247	206,722
Allocation to noncontrolling interests	(1,024)	(870)
Net income allocable to Public Storage shareholders	211,223	205,852
Allocation of net income to:		
Preferred shareholders - distributions	(48,590)	(55,095)
Preferred shareholders - redemptions	-	(24,900)
Restricted share units	(697)	(514)

Net income allocable to common shareholders	$ 161,936	$ 125,343
Net income per common share – basic		
Continuing operations	$ 0.94	$ 0.74
Discontinued operations	-	-
	0.94	0.74
Net income per common share – diluted		
Continuing operations	$ 0.94	$ 0.73
Discontinued operations	-	-
	0.94	0.73
Basic weighted average common shares outstanding	171,446	170,309
Diluted weighted average common shares outstanding	172,514	171,415
Cash dividends declared per common share	$ 1.25	$ 1.10

See accompanying notes.

PUBLIC STORAGE

STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Net income	$ 212,247	$ 206,722
Other comprehensive (loss) income:		
Aggregate foreign currency exchange (loss) gain	(32,621)	23,221
Adjust for foreign currency exchange loss (gain) included in net income	12,737	(12,157)
Other comprehensive (loss) income:	(19,884)	11,064
Total comprehensive income	192,363	217,786
Allocation to noncontrolling interests	(1,024)	(870)
Comprehensive income allocated to Public Storage shareholders	$ 191,339	$ 216,916

See accompanying notes.

PUBLIC STORAGE

STATEMENT OF EQUITY

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

(Unaudited)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Public Storage Shareholders' Equity	Permanent Noncontrolling Interests	Total Equity
Balances at December 31, 2012	$ 2,837,500	$ 17,139	$ 5,519,596	$ (279,474)	$ (1,005)	$ 8,093,756	$ 29,108	$ 8,122,864
Issuance of 29,000,000 preferred shares (Note 8)	725,000	-	(23,313)	-	-	701,687	-	701,687
Issuance of common shares in connection with share-based compensation (146,671 shares) (Note 10)	-	15	3,848	-	-	3,863	-	3,863
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	(1,349)	-	-	(1,349)	-	(1,349)
Net income	-	-	-	212,247	-	212,247	-	212,247
Net income allocated to (Note 7):								
Permanent noncontrolling interests	-	-	-	(1,024)	-	(1,024)	1,024	-

Distributions to equity holders:								
Preferred shares (Note 8)	-	-	-	(48,590)	-	(48,590)	-	(48,590)
Permanent noncontrolling interests	-	-	-	-	-	-	(1,692)	(1,692)
Common shares and restricted share units ($1.25 per share)	-	-	-	(215,143)	-	(215,143)	-	(215,143)
Other comprehensive income (Note 2)	-	-	-	-	(19,884)	(19,884)	-	(19,884)
Balances at March 31, 2013	$ 3,562,500	$ 17,154	$ 5,498,782	$ (331,984)	$ (20,889)	$ 8,725,563	$ 28,440	$ 8,754,003

See accompanying notes.

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STATEMENTS OF CASH FLOWS

(Amounts in thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	$ 212,247	$ 206,722
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including amounts in discontinued operations	91,001	86,938
Distributions received from unconsolidated real estate entities (less than) in excess of equity in earnings	(493)	1,957
Foreign currency exchange loss (gain)	12,737	(12,157)
Other	(6,153)	(3,970)
Total adjustments	97,092	72,768
Net cash provided by operating activities	309,339	279,490
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(7,818)	(14,278)
Construction in process	(27,779)	(997)
Acquisition of real estate facilities and intangibles (Note 3)	(13,540)	(41,970)
Other	7,721	2,950
Net cash used in investing activities	(41,416)	(54,295)
Cash flows from financing activities:		
Repayments on bank credit facility	(133,000)	-
Repayments on notes payable	(193,186)	(24,884)
Issuance of common shares	3,863	9,722
Issuance of preferred shares	701,687	893,170
Redemption of preferred shares	-	(356,687)
Acquisition of noncontrolling interests	-	(20,222)
Distributions paid to Public Storage shareholders	(263,733)	(243,243)
Distributions paid to noncontrolling interests	(1,692)	(1,739)
Net cash provided by financing activities	113,939	256,117
Net increase in cash and cash equivalents	381,862	481,312
Net effect of foreign exchange translation on cash and cash equivalents	(849)	(241)
Cash and cash equivalents at the beginning of the period	17,239	139,008
Cash and cash equivalents at the end of the period	$ 398,252	$ 620,079

Supplemental schedule of non-cash investing and financing activities:

Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	$ 789	$ (464)
Investment in unconsolidated real estate entities	18,553	(10,858)
Loan receivable from unconsolidated real estate entity	12,430	(12,140)
Accumulated other comprehensive (loss) income	(32,621)	23,221
Preferred shares called for redemption and reclassified:		
To liabilities	-	476,634
From equity	-	(476,634)

See accompanying notes.

PUBLIC STORAGE

CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

1. Description of the Business

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

At March 31, 2013, we have direct and indirect equity interests in 2,080 self-storage facilities (with approximately 133 million net rentable square feet) located in 38 states in the United States ("U.S.") operating under the "Public Storage" name. In Europe, we own one self-storage facility in London, England and we have a 49% interest in Shurgard Europe, which owns 187 self-storage facilities (with approximately 10.0 million net rentable square feet) located in seven Western European countries, all operating under the "Shurgard" name. We also have direct and indirect equity interests in approximately 29.7 million net rentable square feet of commercial space located in 11 states in the U.S. primarily owned and operated by PS Business Parks, Inc. ("PSB") under the "PS Business Parks" name. At March 31, 2013, we have an approximate 41% interest in PSB.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as defined in the Financial Accounting Standards Board Accounting Standards Codification (the "Codification"), including guidance with respect to interim financial information, and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. While they do not include all of the disclosures required by GAAP for complete financial statements, we believe that we have included all adjustments (consisting of normal and recurring adjustments) necessary for a fair presentation. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 due to seasonality and other factors. These interim financial statements should be read together with the audited financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Certain amounts previously reported in our December 31, 2012 and March 31, 2012 financial statements have been reclassified to conform to the March 31, 2013 presentation, as a result of 1) discontinued operations, 2) to separately present construction in process, and 3) to reflect credit card fees as part of cost of operations rather than as a reduction

to revenues.

Consolidation and Equity Method of Accounting

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

We consolidate all entities that we control (these entities, for the period in which the reference applies, are referred to collectively as the "Subsidiaries"), and we eliminate intercompany transactions and balances.

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CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

We account for our investments in entities that we have significant influence over, but do not control, using the equity method of accounting (these entities, for the periods in which the reference applies, are referred to collectively as the "Unconsolidated Real Estate Entities"). When we obtain control of an Unconsolidated Real Estate Entity, we commence consolidating the entity and record a gain representing the differential between the book value and fair value of our preexisting equity interest. All changes in consolidation status are reflected prospectively.

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

Collectively, at March 31, 2013, the Company and the Subsidiaries own 2,066 self-storage facilities in the U.S., one self-storage facility in London, England and six commercial facilities in the U.S. At March 31, 2013, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 14 self-storage facilities in the U.S. with 0.8 million net rentable square feet (these limited partnerships, for the periods in which the reference applies, are referred to as the "Other Investments").

Use of Estimates

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

Income Taxes

We have elected to be treated as a real estate investment trust ("REIT"), as defined in the Internal Revenue Code. As a REIT, we do not incur federal income tax if we distribute 100% of our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) each year, and if we meet certain organizational and operational rules. We believe we will meet these REIT requirements in 2013, and that we have met them for all other periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

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

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would be sustained (including the impact of appeals, as applicable), assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of March 31, 2013, we had no tax benefits that were not recognized.

Real Estate Facilities

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

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CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

We allocate the net acquisition cost of acquired operating self-storage facilities (consisting of the cash paid to third parties for their interests, the fair value of our existing investment, and the fair value of any liabilities assumed) to the underlying land, buildings, identified intangible assets, and remaining noncontrolling interests based upon their respective individual estimated fair values. Any difference between the net acquisition cost and the estimated fair value of the net tangible and intangible assets acquired is recorded as goodwill.

Other Assets

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

Accrued and Other Liabilities

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

Cash Equivalents and Marketable Securities

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

Fair Value Accounting

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

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

We use significant judgment to estimate fair values in recording our business combinations, to evaluate real estate, investments in unconsolidated real estate entities, goodwill, and other intangible assets for impairment, and to

determine the fair values of notes payable and receivable. In estimating fair values, we consider significant unobservable inputs such as market prices of land, capitalization rates for real estate facilities, earnings multiples, projected levels of earnings, costs of construction, functional depreciation, and estimated market interest rates for debt securities with a similar time to maturity and credit quality, which are "Level 3" inputs as the term is defined in Codification Section 820-10-35-52. We believe that, during all periods presented, the carrying values approximate the fair values of our notes payable and loan receivable.

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(Unaudited)

Currency and Credit Risk

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

At March 31, 2013, due primarily to our investment in and loan receivable from Shurgard Europe, our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

Intangible assets are comprised of goodwill, acquired tenants in place, leasehold interests in land, and the "Shurgard" trade name.

Goodwill totaled $174.6 million at March 31, 2013 and December 31, 2012. Goodwill has an indeterminate life and is not amortized.

Acquired tenants in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the tenants in place or the land lease expense to each period. At March 31, 2013, these intangibles have a net book value of $13.6 million ($15.9 million at December 31, 2012). Accumulated amortization totaled $26.0 million at March 31, 2013 ($24.8 million at December 31, 2012), and amortization expense of $2.6 million and $2.0 million was recorded in the three months ended March 31, 2013 and 2012, respectively. During the three months ended March 31, 2013 and 2012, intangibles were increased $0.3 million and $3.4 million, respectively, in connection with the acquisition of self-storage facilities.

The "Shurgard" trade name, which is used by Shurgard Europe pursuant to a licensing agreement, has a book value of $18.8 million at March 31, 2013 and December 31, 2012. This asset has an indefinite life and, accordingly, is not amortized.

Evaluation of Asset Impairment

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

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

the carrying value of the asset over the expected net proceeds from disposal.

Prior to January 1, 2013, we evaluated indefinite lived intangible assets (other than goodwill) for impairment through a quantitative analysis, and recorded impairment charges to the extent quantitatively estimated fair value was less than the carrying amount. Beginning January 1, 2013, if we determine, based upon the relevant events and circumstances and other such qualitative factors, that it is more likely than not that the asset is unimpaired, we do not record an impairment charge and no further analysis is performed.

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CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

Otherwise, we record an impairment charge for any excess of carrying amount over the asset's quantitatively assessed fair value. The change made on January 1, 2013, which is not expected to have a material impact upon our net income, resulted from our adoption of the Financial Accounting Standards Board's (the "FASB's") Accounting Standards Update No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment."

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

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

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

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

Revenue and Expense Recognition

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

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

Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related amounts on our balance sheets are translated into U.S. Dollars at the exchange rates at the respective financial

statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. The Euro was translated at exchange rates of approximately 1.282 U.S. Dollars per Euro at March 31, 2013 (1.322 at December 31, 2012), and average exchange rates of 1.320 and 1.310 for the three months ended March 31, 2013 and 2012, respectively. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in equity as a component of accumulated other comprehensive income (loss).

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CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

Comprehensive Income (Loss)

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

Discontinued Operations

Discontinued operations represents the net income of those facilities that have been disposed of as of March 31, 2013, or which we plan to dispose of within a year.

Net Income per Common Share

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

Basic net income per share, basic net income from discontinued operations per share, and basic net income from continuing operations per share are computed using the weighted average common shares outstanding. Diluted net income per share, diluted net income from discontinued operations per share, and diluted net income from continuing operations per share are computed using the weighted average common shares outstanding, adjusted for the impact, if dilutive, of stock options outstanding (Note 10).

The following table reflects the components of the calculations of our basic and diluted net income per share, basic and diluted net income from discontinued operations per share, and basic and diluted net income from continuing operations per share which are not already otherwise set forth on the face of our statements of income:

	For the Three Months Ended March 31,	
	2013	2012
	(Amounts in thousands)	

Net income allocable to common shareholders from continuing operations and discontinued operations:

Net income allocable to common shareholders	$ 161,936	$ 125,343
Eliminate: Discontinued operations allocable to common shareholders	-	(234)
Net income from continuing operations allocable to common shareholders	$ 161,936	$ 125,109
Weighted average common shares and equivalents outstanding:		
Basic weighted average common shares outstanding	171,446	170,309
Net effect of dilutive stock options - based on treasury stock method	1,068	1,106
Diluted weighted average common shares outstanding	172,514	171,415

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CONDENSED NOTES TO FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

Recent Accounting Pronouncements and Guidance

In January 2013, we adopted ASU No. 2013-02, "Reporting Amounts Classified out of Accumulated Other Comprehensive Income," (ASU No. 2013-02") which requires enhanced disclosures about items reclassified out of accumulated other comprehensive income. ASU 2013-02 requires us to report, in one place, information about reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires that for items reclassified to net income in their entirety, information about the effect of significant reclassification items on line items of net income by component of other comprehensive income. For other accumulated other comprehensive income reclassification items not required to be reclassified directly to net income in their entirety, we must cross-reference to the note to our financial statements where additional details about the effects of the reclassification are disclosed. The adoption of ASU No. 2013-02 had no impact on our financial condition or results of operations.

3. Real Estate Facilities

Activity in real estate facilities is as follows:

	Three Months Ended March 31, 2013 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	$ 11,033,819
Capital expenditures to maintain real estate facilities	7,818
Acquisitions	13,159
Impact of foreign exchange rate changes	(1,364)
Ending balance	11,053,432
Accumulated depreciation:	
Beginning balance	(3,738,130)
Depreciation expense	(87,560)
Impact of foreign exchange rate changes	575
Ending balance	(3,825,115)
Construction in process:	
Beginning balance	36,243
Current development	27,779
Ending balance	64,022

Total real estate facilities at March 31, 2013	$ 7,292,339

During the three months ended March 31, 2013, we acquired two operating self-storage facilities from third parties (149,000 net rentable square feet of storage space) for $13.5 million in cash, with $13.2 million allocated to real estate facilities and $0.3 million allocated to intangible assets. Construction in process at March 31, 2013, consists of 19 projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 1.3 million net rentable square feet, for an aggregate estimated cost of approximately $169 million, of which $64 million had been incurred as of March 31, 2013.

4. Investments in Unconsolidated Real Estate Entities

The following table sets forth our investments in the Unconsolidated Real Estate Entities at March 31, 2013 and December 31, 2012, and our equity in earnings of the Unconsolidated Real Estate Entities for the three months ended March 31, 2013 and 2012 (amounts in thousands):

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	Investments in Unconsolidated Real Estate Entities at	
	March 31, 2013	December 31, 2012
PSB	$ 314,921	$ 316,078
Shurgard Europe	394,382	411,107
Other Investments	7,961	8,138
Total	$ 717,264	$ 735,323

	Equity in Earnings of Unconsolidated Real Estate Entities for the Three Months Ended March 31,	
	2013	2012
PSB	$ 4,610	$ 1,895
Shurgard Europe	6,667	6,842
Other Investments	366	378
Total	$ 11,643	$ 9,115

During the three months ended March 31, 2013 and 2012, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling $11.2 million and $11.1 million, respectively.

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 41% common equity interest in PSB as of March 31, 2013 (41% at December 31, 2012), comprised of our ownership of 5,801,606 shares of PSB's common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB. The 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 March 31, 2013 ($78.92 per share of PSB common stock), the shares and units we owned had a market value of approximately $1.0 billion.

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

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	2013	2012
	(Amounts in thousands)	
For the three months ended March 31,		
Total revenue	$ 88,278	$ 84,843
Costs of operations	(29,384)	(28,115)
Depreciation and amortization	(26,961)	(27,244)
General and administrative	(2,399)	(2,273)
Other items	(4,545)	(5,366)
Net income	24,989	21,845
Net income allocated to preferred unitholders, preferred shareholders and restricted stock unitholders (a)	(13,883)	(17,329)
Net income allocated to common shareholders and common unitholders	$ 11,106	$ 4,516

(a) Includes EITF D-42 allocations to preferred equity holders of $5.3 million during the three months ended March 31, 2012 related to PSB's redemption of preferred securities.

	March 31, 2013	December 31, 2012
	(Amounts in thousands)	
Total assets (primarily real estate)	$ 2,126,691	$ 2,151,817
Debt	340,000	468,102
Other liabilities	66,154	69,454
Equity:		
Preferred stock and units	995,000	885,000
Common equity and units	725,537	729,261

Investment in Shurgard Europe

For all periods presented, we had a 49% equity investment in Shurgard Europe.

Changes in foreign currency exchange rates caused our investment in Shurgard Europe to decrease approximately $18.6 million during the three months ended March 31, 2013 and increase approximately $10.9 million during the

three months ended March 31, 2012.

We classify 49% of interest income and trademark license fees received from Shurgard Europe as equity in earnings of unconsolidated real estate entities and the remaining 51% as interest and other income, as set forth in the following table:

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	2013	2012
	(Amounts in thousands)	
For the three months ended March 31,		
Our 49% equity share of:		
Shurgard Europe's net income	$ 1,827	$ 1,985
Interest income and trademark license fee	4,840	4,857
Total equity in earnings of Shurgard Europe	$ 6,667	$ 6,842

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

	2013	2012
	(Amounts in thousands)	
For the three months ended March 31,		
Self-storage and ancillary revenues	$ 60,524	$ 60,774
Self-storage and ancillary cost of operations	(24,763)	(25,007)
Depreciation and amortization	(15,392)	(16,711)
General and administrative	(2,586)	(2,682)
Interest expense on third party debt	(1,346)	(2,522)
Trademark license fee payable to Public Storage	(606)	(608)
Interest expense on debt due to Public Storage	(9,272)	(9,304)
Other (a)	(2,830)	112
Net income	$ 3,729	$ 4,052

Average exchange rates Euro to the U.S. Dollar	1.320	1.310

(a) Amount for the three months ended March 31, 2013 includes a $2.8 million lease termination charge associated with Shurgard Europe's closure of a facility in France.

	March 31, 2013	December 31, 2012
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	$ 1,383,522	$ 1,427,037
Total debt to third parties	192,725	216,594
Total debt to Public Storage	398,565	410,995
Other liabilities	80,904	70,076
Equity	711,328	729,372
Exchange rate of Euro to U.S. Dollar	1.282	1.322

Other Investments

At March 31, 2013, the “Other Investments” include an aggregate common equity ownership of approximately 26% in various limited partnerships that collectively own 14 self-storage facilities.

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The following table sets forth certain condensed combined financial information (representing all of these entities' balances and not our pro-rata share) with respect to these limited partnerships:

	2013	2012
	(Amounts in thousands)	
For the three months ended March 31,		
Total revenue	$ 3,422	$ 3,314
Cost of operations and other expenses	(1,277)	(1,336)
Depreciation and amortization	(466)	(521)
Net income	$ 1,679	$ 1,457

	March 31, 2013	December 31, 2012
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	$ 27,415	$ 27,710
Total accrued and other liabilities	1,443	1,291
Total Partners' equity	25,972	26,419

5. Loan Receivable from Unconsolidated Real Estate Entity

As of March 31, 2013 and December 31, 2012, we had a Euro-denominated loan receivable from Shurgard Europe with a balance of €311.0 million at both periods ($398.6 million at March 31, 2013 and $411.0 million at December 31, 2012), which bears interest at a fixed rate of 9.0% per annum matures February 15, 2015, and can be prepaid at any time without penalty. Because we expect repayment of this loan in the foreseeable future, foreign exchange rate gains or losses due to changes in exchange rates between the Euro and the U.S. Dollar are recognized on our income statements as "foreign currency exchange (loss) gain." For each of the three month periods ended March 31, 2013 and

2012, we recorded interest income with respect to this loan (representing 51% of the aggregate interest received; see Note 4) of approximately $4.7 million.

We believe that the interest rate on the loan to Shurgard Europe approximates the market rate for loans with similar terms, conditions, subordination features, and tenor, and that the fair value of the loan approximates book value. In our evaluation of market rates and fair value, we considered that Shurgard Europe has sufficient operating cash flow, liquidity and collateral, and we have sufficient creditor rights such that credit risk is mitigated. We have received a total of €80.9 million in principal repayments on this loan since its inception on March 31, 2008.

6.   Line of Credit and Notes Payable

We have a $300 million revolving line of credit (the "Credit Facility") that expires on March 21, 2017. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.925% to LIBOR plus 1.850% depending on our credit ratings (LIBOR plus 0.950% at March 31, 2013). In addition, we are required to pay a quarterly facility fee ranging from 0.125% per annum to 0.400% per annum depending on our credit ratings (0.125% per annum at March 31, 2013). At December 31, 2012, outstanding borrowings under this Credit Facility totaled $133.0 million, which was repaid in full on January 16, 2013. We had no outstanding borrowings on our Credit Facility at either March 31, 2013 or May 9, 2013. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling $15.3 million at March 31, 2013 and December 31, 2012. The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at March 31, 2013.

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The carrying amounts of our notes payable at March 31, 2013 and December 31, 2012 consist of the following (dollar amounts in thousands):

	March 31, 2013	December 31, 2012
Unsecured Note Payable:		
5.9% effective and stated note rate, interest only and payable semi-annually, matured in March 2013	$ -	$ 186,460
Secured Notes Payable:		
5.0% average effective rate, secured by 63 real estate facilities with a net book value of approximately $332.8 million at March 31, 2013 and stated note rates between 4.95% and 7.43%, maturing at varying dates between June 2013 and September 2028 (carrying amount includes $969 of unamortized premium at March 31, 2013 and $1,192 at December 31, 2012)	142,419	149,368
Total notes payable	$ 142,419	$ 335,828

Substantially all of our debt was assumed in connection with the acquisition of real estate. An initial premium or discount is established for any difference between the stated note balance and estimated fair value of the debt assumed. This initial premium or discount is amortized over the remaining term of the debt using the effective interest method.

At March 31, 2013, approximate principal maturities of our notes payable are as follows (amounts in thousands):

	Secured Notes

	Payable
2013 (remainder)	$ 61,196
2014	35,127
2015	30,009
2016	10,065
2017	1,003
Thereafter	5,019
	$ 142,419
Weighted average effective rate	5.0%

Cash paid for interest totaled $4.3 million and $6.0 million for the three months ended March 31, 2013 and 2012, respectively. Interest capitalized as real estate totaled $0.6 million in the three months ended March 31, 2013 (no interest was capitalized for the same period in 2012).

7. Noncontrolling Interests

Third party interests in the net assets of the Subsidiaries that can require us to redeem their interests, other than pursuant to a liquidation, are presented at estimated fair value as "Redeemable Noncontrolling Interests," with changes in the fair value of these interests recorded against retained earnings. We estimate fair value by applying the liquidation provisions of the governing documents to our estimate of the fair value of the underlying net assets (principally real estate assets). All other noncontrolling interests are presented as a component of equity, "Equity of Permanent Noncontrolling Interests."

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Redeemable Noncontrolling Interests

During the three months ended March 31, 2012, we acquired all the outstanding Redeemable Noncontrolling Interests for $19.9 million in cash. During the three months ended March 31, 2012, we allocated a total of $0.2 million of income to these interests and paid distributions to these interests totaling $0.6 million.

Permanent Noncontrolling Interests

At March 31, 2013, the Permanent Noncontrolling Interests have ownership interests in Subsidiaries that owned 15 self-storage facilities and 231,978 partnership units (the "Convertible Partnership Units") in a subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder. During the three months ended March 31, 2013 and 2012, we allocated a total of $1.0 million and $0.6 million, respectively, in income to these interests; and we paid $1.7 million and $1.1 million, respectively, in distributions to these interests.

During the three months ended March 31, 2012, we acquired Permanent Noncontrolling Interests for $0.3 million in cash.

8. Shareholders' Equity

Preferred Shares

At March 31, 2013 and December 31, 2012, we had the following series of Cumulative Preferred Shares ("Preferred Shares") outstanding:

			At March 31, 2013		At December 31, 2012	
Series	Earliest Redemption Date	Dividend Rate	Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
			(Dollar amounts in thousands)			
Series O	4/15/2015	6.875%	5,800	$ 145,000	5,800	$ 145,000
Series P	10/7/2015	6.500%	5,000	125,000	5,000	125,000
Series Q	4/14/2016	6.500%	15,000	375,000	15,000	375,000
Series R	7/26/2016	6.350%	19,500	487,500	19,500	487,500
Series S	1/12/2017	5.900%	18,400	460,000	18,400	460,000
Series T	3/13/2017	5.750%	18,500	462,500	18,500	462,500

Series U	6/15/2017	5.625%	11,500	287,500	11,500	287,500
Series V	9/20/2017	5.375%	19,800	495,000	19,800	495,000
Series W	1/16/2018	5.200%	20,000	500,000	-	-
Series X	3/13/2018	5.200%	9,000	225,000	-	-
Total Preferred Shares			142,500	$ 3,562,500	113,500	$ 2,837,500

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The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except under certain conditions and as noted below, holders of the Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our Board of Trustees until the arrearage has been cured. At March 31, 2013, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the Preferred Shares are not redeemable prior to the dates indicated on the table above. On or after the respective dates, each of the series of Preferred Shares are redeemable at our option, in whole or in part, at $25.00 per depositary share, plus accrued and unpaid dividends. Holders of the Preferred Shares do not have the right to require the Company to redeem such shares.

Upon issuance of our Preferred Shares, we classify the liquidation value as preferred equity on our balance sheet with any issuance costs recorded as a reduction to paid-in capital.

During the three months ended March 31, 2013, we issued an aggregate 29.0 million depositary shares, each representing 1/1,000 of a share of our Series W and Series X Preferred Shares, at an issuance price of $25.00 per depositary share, for a total of $725.0 million in gross proceeds, and we incurred an aggregate of $23.3 million in issuance costs.

During the three months ended March 31, 2012, we issued an aggregate 36.9 million depositary shares, each representing 1/1,000 of a share of our Series S and Series T Preferred Shares, at an issuance price of $25.00 per depositary share, for a total of $922.5 million in gross proceeds, and we incurred an aggregate of $29.3 million in issuance costs.

In the three months ended March 31, 2012, we redeemed our Series E, Series L, and Series Y Cumulative Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, was $356.7 million. In March 2012, we called for redemption our Series M Cumulative Preferred Shares. On April 11, 2012, we redeemed this series, at par. We recorded a $24.9 million EITF D-42 allocation of income from our common shareholders to the holders of our Preferred Shares in the three months ended March 31, 2012 in connection with these redemptions.

Dividends

Common share dividends including amounts paid to our restricted share unitholders totaled $215.1 million ($1.25 per share) and $188.1 million ($1.10 per share), for the three months ended March 31, 2013 and 2012, respectively. Preferred share dividends totaled $48.6 million and $55.1 million for the three months ended March 31, 2013 and 2012, respectively.

9. Related Party Transactions

The Hughes Family owns approximately 15.8% of our common shares outstanding at March 31, 2013.

The Hughes Family has ownership interests in, and operates, approximately 53 self-storage facilities in Canada ("PS Canada") using the "Public Storage" brand name pursuant to a non-exclusive, royalty-free trademark license agreement with the Company. We currently do not own any interests in these facilities. We have a right of first refusal, subject to limitations, to acquire these 53 facilities if the Hughes Family or the underlying corporation agrees to sell them. We reinsure risks relating to loss of goods stored by tenants in these facilities. During each of the three month periods ended March 31, 2013 and 2012, we received $0.1 million in

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reinsurance premiums attributed to these facilities. There is no assurance that these premiums will continue, as our rights to reinsure these risks may be qualified.

PS Canada holds approximately a 2.2% interest in Stor-RE, a consolidated entity that provides liability and casualty insurance for PS Canada, the Company, and certain affiliates of the Company for occurrences prior to April 1, 2004.

10. Share-Based Compensation

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

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

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

Stock Options

Stock options vest over a three to five-year period, generally expire ten years after the grant date, and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options.

Outstanding stock option grants are included on a one-for-one basis in our diluted weighted average shares, to the extent dilutive, after applying the treasury stock method (based upon the average common share price during the period) to assumed exercise proceeds and measured but unrecognized compensation.

For each of the three month periods ended March 31, 2013 and 2012, we recorded $0.7 million in compensation expense related to stock options.

During the three months ended March 31, 2013, 200,000 stock options were granted, 61,739 options were exercised and 24,000 options were forfeited. A total of 2,367,771 stock options were outstanding at March 31, 2013 (2,253,510 at December 31, 2012).

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Restricted Share Units

RSUs generally vest ratably over a three to eight-year period from the grant date. The grantee receives dividends for each outstanding RSU equal to the per-share dividends received by our common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax deposits made by the Company to satisfy the grantee's statutory tax liabilities arising from the vesting.

The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares.

During the three months ended March 31, 2013, 174,925 RSUs were granted, 15,071 RSUs were forfeited and 127,341 RSUs vested. This vesting resulted in the issuance of 84,932 common shares. In addition, tax deposits totaling $6.4 million were made on behalf of employees in exchange for 42,409 common shares withheld upon vesting.

RSUs outstanding at March 31, 2013 and December 31, 2012 were 675,160 and 642,647, respectively. A total of $5.2 million and $4.6 million in RSU expense was recorded for the three months ended March 31, 2013 and 2012, respectively, which includes approximately $0.8 million in employer taxes incurred upon vesting, for each of the three month periods ended March 31, 2013 and 2012.

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

11. Segment Information

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

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

Domestic Self-Storage Segment

The Domestic Self-Storage Segment includes the operations of the 2,067 self-storage facilities owned by the Company and the Subsidiaries, as well as our equity share of the Other Investments. For all periods presented, substantially all of our real estate facilities, goodwill and other intangible assets, other assets, and accrued and other liabilities are associated with the Domestic Self-Storage Segment.

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European Self-Storage Segment

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

Commercial Segment

The Commercial segment comprises our investment in PSB, a publicly-traded REIT with a separate management team that makes its financing, capital allocation and other significant decisions. The Commercial segment also includes our direct interest in certain commercial facilities, substantially all of which are managed by PSB. The Commercial segment presentation includes our equity earnings and interest income from PSB, as well as the revenues and expenses of our commercial facilities. At March 31, 2013, the assets of the Commercial segment are comprised principally of our investment in PSB (Note 4).

Presentation of Segment Information

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

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	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
	(Amounts in thousands)				
Revenues:					
Self-storage facilities	$ 439,665	$ -	$ -	$ -	$ 439,665
Ancillary operations	-	-	3,533	27,702	31,235
	439,665	-	3,533	27,702	470,900
Expenses:					
Self-storage cost of operations	140,993	-	-	-	140,993
Ancillary cost of operations	-	-	1,310	8,086	9,396
Depreciation and amortization	90,302	-	699	-	91,001
General and administrative	-	-	-	18,253	18,253
	231,295	-	2,009	26,339	259,643
Operating income	208,370	-	1,524	1,363	211,257
Interest and other income	-	5,038	-	543	5,581
Interest expense	-	-	-	(3,497)	(3,497)
Equity in earnings of unconsolidated real estate entities	366	6,667	4,610	-	11,643
Foreign currency exchange loss	-	(12,737)	-	-	(12,737)
Net income (loss)	$ 208,736	$ (1,032)	$ 6,134	$ (1,591)	$ 212,247

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For the three months ended March 31, 2012

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
	(Amounts in thousands)				
Revenues:					
Self-storage facilities	$ 410,559	$ -	$ -	$ -	$ 410,559
Ancillary operations	-	-	3,501	25,775	29,276
	410,559	-	3,501	25,775	439,835
Expenses:					
Self-storage cost of operations	142,193	-	-	-	142,193
Ancillary cost of operations	-	-	1,304	8,214	9,518
Depreciation and amortization	86,124	-	700	-	86,824
General and administrative	-	-	-	16,405	16,405
	228,317	-	2,004	24,619	254,940
Operating income	182,242	-	1,497	1,156	184,895
Interest and other income	-	5,055	-	600	5,655
Interest expense	-	-	-	(5,334)	(5,334)
Equity in earnings of unconsolidated real estate entities	378	6,842	1,895	-	9,115
Foreign currency exchange gain	-	12,157	-	-	12,157
Income (loss) from continuing operations	182,620	24,054	3,392	(3,578)	206,488
Discontinued operations	234	-	-	-	234
Net income (loss)	$ 182,854	$ 24,054	$ 3,392	$ (3,578)	$ 206,722

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12.Commitments and Contingencies

Contingent Losses

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

Insurance and Loss Exposure

We have historically carried customary property, earthquake, general liability, medical insurance provided to our employees, and workers compensation coverage through internationally recognized insurance carriers, subject to customary levels of deductibles. The aggregate limits on these policies of approximately $75 million for property losses and $102 million for general liability losses are higher than estimates of maximum probable loss that could occur from individual catastrophic events determined in recent engineering and actuarial studies; however, in case of multiple catastrophic events, these limits could be exhausted.

We reinsure a program that provides insurance to our tenants from an independent third-party insurer. This program covers tenant claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of $5,000 per storage unit. We reinsure all risks in this program, but purchase insurance from an independent third party insurance company for aggregate claims between $5.0 million and $15.0 million per occurrence. We are subject to licensing requirements and regulations in several states. At March 31, 2013, there were approximately 726,000 certificate holders held by our self-storage tenants, representing aggregate coverage of approximately $1.6 billion.

13.Subsequent Events

As of May 9, 2013, we are under contract to acquire (subject to contingencies) a self-storage facility (located in Phoenix, Arizona) with 80,000 net rentable square feet, for approximately $8.0 million in cash.

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 financial statements and notes thereto.

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

These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause our actual results and performance to be materially different from those expressed or implied in the forward-looking statements. Factors and risks that may impact our future results and performance include, but are not limited to, those described in Part I, Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 25, 2013 and in our other filings with the SEC and the following:

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

- risk of increased tax expense associated either with a possible failure by us to qualify as a REIT, or with challenges to intercompany transactions with our taxable REIT subsidiaries;

- changes in federal tax laws related to the taxation of REITs, which could impact our status as a REIT;

- disruptions or shutdowns of our automated processes, systems and the Internet or breaches of our data security;

· risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;

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

· difficulties in raising capital at a reasonable cost or on other terms acceptable or favorable to us; and

· economic uncertainty due to the impact of terrorism or war.

These forward looking statements speak only as of the date of this report or as of the dates indicated in the statements. All of our forward-looking statements, including those in this report, are qualified in their entirety by this statement. We expressly disclaim any obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, new estimates, or other factors, events or circumstances after the date of these forward looking statements, except as required by law. Given these risks and uncertainties, you should not rely on any forward-looking statements in this report, or which management may make orally or in writing from time to time, as predictions of future events or guarantees of future performance.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") discusses our financial statements, which have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"). The amounts reported in our financial statements, notes to financial statements and MD&A are affected by judgments, assumptions and estimates that we make. The notes to our March 31, 2013 financial statements, primarily Note 2, summarize our significant accounting policies.

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

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

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

In addition, our taxable REIT subsidiaries are taxable as regular corporations. To the extent that amounts paid to us by our taxable REIT subsidiaries are determined by the taxing authorities to be in excess of amounts that would be

paid under similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess payments. Such a penalty tax could have a material adverse impact on our net income.

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

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

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

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

Overview of Management's Discussion and Analysis of Operations

Our domestic self-storage facilities generated 93% of our revenues for the three months ended March 31, 2013, and also generated most of our net income and cash flow from operations. A significant portion of management time is devoted to maximizing cash flows from our existing self-storage facilities and associated ancillary activities, as well as seeking additional investments in self-storage facilities.

Most of our facilities compete with other well-managed and well-located competitors, and we are subject to general economic conditions, particularly those that affect the spending habits of consumers and moving trends. We believe that our centralized information networks, national telephone and online reservation system, the brand name "Public Storage," and our economies of scale enable us to meet such challenges effectively.

Since the beginning of 2010, we acquired an aggregate of 79 self-storage facilities from third parties for approximately $559 million, we acquired noncontrolling interests in subsidiaries owning self-storage facilities for approximately $197 million, and we invested $117 million in Shurgard Europe, which it used to acquire interests in self-storage facilities. We expect to continue to seek to acquire additional self-storage facilities from third parties in the remainder of 2013. There is significant competition to acquire existing facilities and there can be no assurance that we will be able to acquire additional facilities at prices we will find attractive.

At March 31, 2013, we had a development pipeline of projects to expand existing self-storage facilities and develop new self-storage facilities, which will add approximately 1.3 million net rentable square feet of self-storage space. The aggregate cost of these projects is estimated at $169 million, of which $64 million had been incurred at March 31, 2013, and the remaining costs will be incurred in 2013 and 2014. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, due to the difficulty in finding projects that meet our risk-adjusted yield expectations, as well as the difficulty in obtaining building permits for self-storage activities in certain municipalities, it is uncertain as to how many additional projects we will undertake in the future.

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

We believe that we are not dependent upon raising capital to fund our ongoing operations or meet our obligations. However, access to capital is important to growing our asset base. During the year ended

December 31, 2012, we issued approximately $1.7 billion of preferred securities. During the three months ended March 31, 2013, we issued another $725.0 million of preferred securities.

At March 31, 2013, cash and cash equivalents totaled $398.3 million. As of May 9, 2013, we were under contract to acquire one self-storage facility for approximately $8.0 million in cash, subject to contingencies. We have $61 million in scheduled principal repayments in the remainder of 2013. At March 31, 2013, we have remaining commitments on development projects of $105 million. We have no other significant commitments in the remainder of 2013.

Results of Operations

Operating results for the Three Months Ended March 31, 2013 and 2012

For the three months ended March 31, 2013, net income allocable to our common shareholders was $161.9 million or $0.94 per diluted common share, compared to $125.3 million or $0.73 per diluted common share for the same period in 2012, representing an increase of $36.6 million or $0.21 per diluted common share. This increase is due primarily to (i) a $30.3 million increase in our self-storage net operating income and (ii) a $31.4 million increase from reduced allocations of net income to preferred shareholders, partially offset by (iii) a $24.9 million reduction due to the impact of foreign currency exchange gains and losses.

Funds from Operations and Core Funds from Operations

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

For the three months ended March 31, 2013, FFO was $1.57 per diluted common share, as compared to $1.35 for the same period in 2012, representing an increase of $0.22 per diluted common share.

The following table reconciles from our net income to FFO and FFO per diluted common share:

	Three Months Ended March 31,	
	2013	2012
Net income	$ 212,247	$ 206,722
Adjust for amounts not included in FFO:		
Depreciation and amortization, including discontinued operations	91,001	86,938
Depreciation from unconsolidated real estate investments	18,903	19,741
FFO allocable to equity holders	322,151	313,401
Less allocation of FFO to:		
Noncontrolling equity interests	(1,631)	(1,718)
Preferred shareholders - distributions	(48,590)	(55,095)
Preferred shareholders - redemptions	-	(24,900)
Restricted share unitholders	(1,105)	(923)
FFO allocable to common shares	$ 270,825	$ 230,765
Diluted weighted average common shares outstanding	172,514	171,415
FFO per diluted common share	$ 1.57	$ 1.35

In addition to FFO, we often discuss “Core FFO” per share which is also a non-GAAP measure that represents FFO per share, adjusted to exclude the impact of i) foreign currency exchange gains and losses, representing a loss of $12.7 million and a gain of $12.2 million for the three months ended March 31, 2013 and 2012, respectively, ii) the impact of EITF D-42 charges, including our equity share from PSB, representing a $27.1 million charge for the three months ended March 31, 2012 (none for the same period in 2013), and iii) our $1.4 million equity share of charges incurred by Shurgard Europe in closing a facility in the three months ended March 31, 2013. We believe Core FFO is a helpful measure in understanding our ongoing earnings. We also believe that the analyst community, likewise, reviews our Core FFO and Core FFO per share (or similar measures using different terminology). Core FFO is not a substitute for net income, earnings per share or cash flow from operations. Because other REITs may not compute Core FFO in the same manner as we do, may not use the same terminology, or may not present such a measure, Core FFO may not be comparable among REITs.

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

	Three Months Ended March 31,		
	2013	2012	Percentage Change
FFO per share	$ 1.57	$ 1.35	16.3%
Eliminate the per share impact of items excluded from Core FFO:			
Foreign currency exchange loss (gain)	0.07	(0.07)	
Application of EITF D-42	-	0.16	

Shurgard Europe's facility closure charge	0.01	-	
Core FFO per share	$ 1.65	$ 1.44	14.6%

Real Estate Operations

Self-Storage Operations: Our self-storage operations represent 93% of our revenues for the three months ended March 31, 2013. Our self-storage operations are analyzed in two groups: (i) the Same Store Facilities, representing the facilities that we have owned and operated on a stabilized basis since January 1, 2011, and (ii) all other facilities, which are newly acquired, newly developed, or recently expanded facilities (the "Non Same Store Facilities").

Self-Storage Operations Summary	Three Months Ended March 31,		
	2013	2012	Percentage Change
	(Dollar amounts in thousands)		
Revenues:			
Same Store Facilities	$ 409,604	$ 388,499	5.4%
Non Same Store Facilities	30,061	22,060	36.3%
Total rental income (a)	439,665	410,559	7.1%
Cost of operations:			
Same Store Facilities	131,358	134,411	(2.3)%
Non Same Store Facilities	9,635	7,782	23.8%
Total cost of operations (a)	140,993	142,193	(0.8)%
Net operating income (b):			
Same Store Facilities	278,246	254,088	9.5%
Non Same Store Facilities	20,426	14,278	43.1%
Total net operating income	298,672	268,366	11.3%
Total depreciation and amortization expense:			
Same Store Facilities	(76,898)	(76,911)	(0.0)%
Non Same Store Facilities	(13,404)	(9,213)	45.5%
Total depreciation and amortization expense	(90,302)	(86,124)	4.9%
Total net income	$ 208,370	$ 182,242	14.3%
Number of facilities at period end:			
Same Store Facilities	1,949	1,949	-
Non Same Store Facilities	118	95	24.2%
Net rentable square footage at period end (in thousands):			
Same Store Facilities	122,823	122,823	-
Non Same Store Facilities	8,963	7,255	23.5%

(a) Adjustments have been made to amounts previously reported, to reflect credit card fees as part of cost of operations rather than as a reduction to revenues.
(b) See "Net Operating Income" below for further information regarding this non-GAAP measure.

Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated on a stabilized basis since January 1, 2011 and therefore provide meaningful comparisons for 2012 and 2013. The following table summarizes the historical operating results of these 1,949 facilities (122.8 million net rentable square feet) that represent approximately 93% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at March 31, 2013.

Selected Operating Data for the Same Store Facilities (1,949 facilities)

	Three Months Ended March 31,		
	2013	2012	Percentage Change
	(Dollar amounts in thousands, except weighted average amounts)		
Revenues:			
Rental income (a)	$ 389,107	$ 368,681	5.5%
Late charges and administrative fees	20,497	19,818	3.4%
Total revenues (a) (b)	409,604	388,499	5.4%
Cost of operations:			
Property taxes	44,758	43,142	3.7%
On-site property manager payroll	25,716	26,031	(1.2)%
Supervisory payroll	9,106	8,990	1.3%
Repairs and maintenance	10,824	12,235	(11.5)%
Utilities	9,259	9,447	(2.0)%
Advertising and selling expense	7,453	10,531	(29.2)%
Other direct property costs (a)	12,601	12,254	2.8%
Allocated overhead	11,641	11,781	(1.2)%
Total cost of operations (a) (b)	131,358	134,411	(2.3)%
Net operating income (c)	278,246	254,088	9.5%
Depreciation and amortization expense	(76,898)	(76,911)	(0.0)%
Net income	$ 201,348	$ 177,177	13.6%
Gross margin (a)	67.9%	65.4%	3.8%
Weighted average for the period:			
Square foot occupancy (d)	91.9%	90.3%	1.8%
Realized annual rental income per:			
Occupied square foot (a) (e)	$ 13.79	$ 13.30	3.7%
Available square foot (“REVPAF”) (a) (e)	$ 12.67	$ 12.01	5.5%
Weighted average at March 31:			
Square foot occupancy	92.4%	90.8%	1.8%
Annual contract rent per occupied square foot (f)	$ 14.38	$ 13.96	3.0%

(a) In previous presentations, credit card fees were presented as a reduction to rental income; such fees are now classified as part of cost of operations under “other direct property costs.”

(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.

(c) See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our operating income in our income statements for the three months ended March 31, 2013 and 2012.

(d) Square foot occupancies represent weighted average occupancy levels over the entire period.

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

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

Analysis of Revenue

Revenues generated by our Same Store Facilities increased by 5.4% in the three months ended March 31, 2013 as compared to the same period in 2012 due to a 1.8% increase in average occupancy and a 3.7% increase in realized rent per occupied square foot. The increase in realized rent per occupied square foot was due primarily to rent increases for tenants that have been renting with us longer than one year, combined with a reduction in promotional discounts given to new tenants.

Same Store average occupancy levels were 2.0% higher on a year-over-year basis as we began 2013. This positive spread stayed consistent throughout most of the three months ended March 31, 2013, as compared to the same period last year. We expect the year-over-year occupancy spread to narrow during the balance of 2013.

Our future rental growth will be dependent upon many factors for each market that we operate in, including demand for self-storage space, the level of competitor supply of self-storage space, our ability to increase rental rates to new and existing tenants, the level of promotional activities required, and the average length of stay of our tenants. Our strategy to deal with these factors is to maximize our occupancy by remaining competitive in rates and promotions offered to new tenants, while increasing the rates charged to existing tenants, as described below.

Based upon current trends, we expect positive year-over-year growth in rental income to continue throughout 2013, due primarily to increases in realized rent per occupied square foot during the remainder of 2013.

We believe that high occupancies maximize our revenue. We seek to maintain an occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to new tenants in order to generate sufficient move-in demand to replace tenants that vacate. Demand fluctuates due to various local and regional factors, including the overall economy. Demand is higher in the summer months than in the winter months and, as a result, rental rates charged to new tenants are typically higher in the summer months than in the winter months.

Increasing rental rates to existing tenants, generally on an annual basis, is a key component of our revenue growth. We determine the level of rental increases based upon our expectations regarding the impact of existing tenant rate increases on incremental move-outs. The level of revenue growth in the remainder of 2013 resulting from rate increases to existing tenants will depend upon the level of rent increases and the resulting level of incremental vacates.

During the three months ended March 31, 2013 and 2012, the average annualized contractual rates per occupied square foot for tenants that moved in were $12.48 and $12.52, respectively, and the average annualized contractual rents per occupied square foot for tenants that vacated were $13.33 and $13.41, respectively. The average contractual rents per occupied square foot for all tenants at March 31, 2013 and 2012 were approximately $14.38 and $13.96,

respectively.

We believe that the current trends in move-in, move-out, and in place contractual rents are consistent with our expectation of continued revenue growth in the remainder of 2013. However, such trends, when viewed in the short-run, are volatile and not necessarily predictive of our revenues going forward because they are subject to many short-term factors. Such factors include initial move-in rates, seasonal factors, the unit size and geographical mix of the specific tenants moving in or moving out, the length of stay of the tenants moving in or moving out, changes in our pricing strategies, and the degree and timing of rate increases previously passed to existing tenants.

Analysis of Cost of Operations

Cost of operations (excluding depreciation and amortization) decreased 2.3% in the three months ended March 31, 2013 as compared to the same period in 2012. The decrease was due primarily to reductions in repairs and maintenance and advertising and selling expense, offset partially by a 3.7% increase in property tax expense.

Property tax expense increased 3.7% in the three months ended March 31, 2013 as compared to the same period in 2012, due primarily to higher assessed values. We expect property tax growth of approximately 4% in the remainder of 2013 as compared to the same periods in 2012.

On-site property manager payroll expense decreased approximately 1.2% in the three months ended March 31, 2013 as compared to the same period in 2012. The decrease was due primarily to fewer hours worked in the three months ended March 31, 2013 as compared to the same period in 2012, due to the impact of leap year in 2012. We expect on-site property manager payroll expense to be approximately flat for the remainder of 2013 as compared to the same periods in 2012.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 1.3% in the three months ended March 31, 2013 as compared to the same period in 2012 due principally to increased salaries and incentives. During the remainder of 2013, we expect growth in supervisory payroll in excess of inflation, due to higher wage rates, incentives and increased headcount as compared to the same periods in 2012.

Repairs and maintenance expense decreased 11.5% in the three months ended March 31, 2013 as compared to the same period in 2012. Included in repairs and maintenance expense is snow removal costs which increased from $1.8 million to $3.3 million during the three months ended March 31, 2012 and 2013, respectively, due to higher snowfall. Excluding snow removal costs, repairs and maintenance decreased 27.7% for the three months ended March 31, 2013 compared to the same period in 2012. This decrease was primarily due to timing of expenditures in 2013 versus 2012, as milder weather in 2012 allowed us to accelerate repairs and maintenance work in the first part of 2012.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs as well as when repair work can be accomplished, inflation in material and labor costs, and random events. We expect year-over-year declines in repairs and maintenance in the remainder of 2013, but at a lower rate of decrease than experienced in the first quarter of 2013.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expenses decreased 2.0% in the three months ended March 31, 2013 as compared to the same period in 2012, due primarily to lower usage and rates. It is difficult to estimate future utility cost levels, because weather, temperature, and energy prices are volatile and not predictable.

Advertising and selling expense is comprised principally of Internet advertising, media advertising, and the operating costs of our telephone reservation center. These costs declined 29.2% in the three months ended March 31, 2013 as compared to the same period in 2012, due primarily to the phase-out of our yellow page advertising program as of December 31, 2012, combined with reduced television and Internet advertising as a result of high occupancies. We expect continued declines in advertising and selling expense in the remainder of 2013 as compared to the same periods in 2012.

Other direct property costs include administrative expenses incurred at the self-storage facilities, such as property insurance, business license costs, bank charges related to processing the properties’ cash receipts, credit card fees, and

the cost of operating each property's rental office including supplies and telephone data communication lines. These costs increased 2.8% in the three months ended March 31, 2013 as compared to the same period in 2012 due primarily to increases in credit card fees. We expect similar increases in other direct property costs in the remainder of 2013 as compared to the same periods in 2012.

Allocated overhead represents administrative expenses for shared general corporate functions, which are allocated to self-storage property operations to the extent their efforts are devoted to self-storage operations. Such functions include data processing, human resources, operational accounting and finance, marketing, and costs of senior executives (other than the Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead decreased 1.2% in the three months ended March 31, 2013 as compared to the same period in 2012. We expect inflationary growth in allocated overhead in the remainder of 2013 as compared to the same periods in 2012.

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

	For the Quarter Ended				
	March 31	June 30	September 30	December 31	Entire Year
	(Amounts in thousands, except for per square foot amount)				
Total revenues:					
2013	$ 409,604				
2012	$ 388,499	$ 399,725	$ 418,085	$ 410,489	$ 1,616,798
Total cost of operations:					
2013	$ 131,358				
2012	$ 134,411	$ 125,126	$ 122,987	$ 102,936	$ 485,460
Property taxes:					
2013	$ 44,758				
2012	$ 43,142	$ 42,051	$ 40,703	$ 26,295	$ 152,191
Repairs and maintenance:					
2013	$ 10,824				
2012	$ 12,235	$ 10,443	$ 8,500	$ 8,901	$ 40,079
Advertising and selling expense:					
2013	$ 7,453				
2012	$ 10,531	$ 10,586	$ 10,216	$ 7,538	$ 38,871
REVPAF:					
2013	$ 12.67				
2012	$ 12.01	$ 12.37			