Public Storage
Form 10-Q
August 09, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from _____________ to ______________.

Commission File Number: 001-33519

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

Maryland	95-3551121
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

701 Western Avenue, Glendale, California	91201-2349
(Address of principal executive offices)	(Zip Code)

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

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

[X] Yes [ ] No

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

Large Accelerated Filer [X]   Accelerated Filer [ ]   Non-accelerated Filer [ ]

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

[ ] Yes [X] No

Indicate the number of the registrant's outstanding common shares of beneficial interest, as of August 6, 2007:

Common Shares of beneficial interest, $.10 par value per share - 170,513,010 shares

PUBLIC STORAGE

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

	June 30, 2007
	(Unaudit
ASSETS	
Cash and cash equivalents	$ 46,743
Real estate facilities, at cost:	
Land	2,969,994
Buildings	8,369,584
	11,339,578
Accumulated depreciation	(1,940,189)
	9,399,389
Construction in process	98,645
	9,498,034
Investment in real estate entities	321,208
Goodwill	174,634
Intangible assets, net	260,015
Restricted cash	20,206
Other assets	156,268
Total assets	$ 10,477,108
LIABILITIES AND SHAREHOLDERS' EQUITY	
Borrowings on bank credit facilities	$ 70,000
Notes payable	981,018
Debt to joint venture partner	37,350
Preferred stock called for redemption	-
Accrued and other liabilities	326,985
Total liabilities	1,415,353
Minority interest:	
Preferred partnership interests	325,000
Other partnership interests	178,124
Commitments and contingencies (Note 15)	
Shareholders' equity:	
Cumulative Preferred Shares of beneficial interest, $0.01 par value, 100,000,000 shares authorized, 1,732,600 shares issued (in series) and outstanding, (1,712,600 at December 31, 2006) at liquidation preference.	3,355,000
Common Shares of beneficial interest, $0.10 par value, 650,000,000 shares authorized, 169,360,999 shares issued and outstanding (169,144,467 at December 31, 2006)	16,937
Equity Shares of beneficial interest, Series A, $0.01 par value, 100,000,000 shares authorized, 8,744.193 shares issued and outstanding	-
Paid-in capital	5,655,666
Cumulative net income	3,640,174
Cumulative distributions paid	(4,144,819)
Accumulated other comprehensive income	35,673
Total shareholders' equity	8,558,631
Total liabilities and shareholders' equity	$ 10,477,108

See accompanying notes.
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PUBLIC STORAGE
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,	
	2007	2006
Revenues:		
Self-storage rental income	$ 411,216	$ 262,232
Ancillary operating revenue	36,977	25,582
Interest and other income	955	10,047
	449,148	297,861
Expenses:		
Cost of operations (excluding depreciation and amortization):		
Self-storage facilities	149,366	89,395
Ancillary operations	21,743	17,150
Depreciation and amortization	167,601	48,580
General and administrative	21,465	6,975
Interest expense	16,707	1,872
	376,882	163,972
Income from continuing operations before equity in earnings of real estate entities, casualty gain, gain on disposition of real estate investments, foreign currency exchange gain, income from derivatives and minority interest in income	72,266	133,889
Equity in earnings of real estate entities	2,782	3,124
Casualty gain	-	-
Gain on disposition of real estate investments	2,238	466
Foreign currency exchange gain	5,553	-
Income from derivatives, net	1,771	-
Minority interest in income	(7,524)	(8,728)
Income from continuing operations	77,086	128,751
Cumulative effect of a change in accounting principle	-	-
Discontinued operations	18	111
Net income	$ 77,104	$ 128,862
Net income allocation:		
Allocable to preferred shareholders	$ 57,315	$ 52,376
Allocable to Equity Shares, Series A	5,356	5,356
Allocable to common shareholders	14,433	71,130
	$ 77,104	$ 128,862

Net income per common share - basic		
Continuing operations..................................	$ 0.09	$ 0.55
Discontinued operations................................	-	-
	$ 0.09	$ 0.55
Net income per common share - diluted		
Continuing operations..................................	$ 0.08	$ 0.55
Discontinued operations................................	-	-
	$ 0.08	$ 0.55
Net income per depositary share representing Equity Shares, Series A (basic and diluted)	$ 0.61	$ 0.61
Basic weighted average common shares outstanding...........	169,346	128,180
Diluted weighted average common shares outstanding.........	170,213	129,062
Weighted average Equity Shares, Series A (basic and diluted)	8,744	8,744

See accompanying notes.

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

	Cumulative Preferred Shares	Common Shares
Balance at December 31, 2006.............................	$ 2,855,000	$ 16,915
Issuance of cumulative preferred shares:		
Series M (20,000 shares)............................	500,000	-
Issuance of common shares in connection with:		
Exercise of employee stock options (177,938 shares)....	-	18
Vesting of restricted shares (38,594 shares)	-	4
Stock-based compensation expense (Note 13)	-	-
Net income...	-	-
Cash distributions:		
Cumulative preferred shares (Note 11)..................	-	-
Equity Shares, Series A ($1.225 per depositary share)..	-	-
Common Shares ($1.00 per share)........................	-	-

Accumulated other comprehensive income:		
Foreign currency translation adjustments..............	-	-
Balance at June 30, 2007................................	$ 3,355,000	$ 16,937

	Cumulative Distributions	Accumulated Other Comprehensive Income
Balance at December 31, 2006............................	$ (3,847,998)	$ 19,329
Issuance of cumulative preferred shares:		
Series M (20,000 shares)...........................	-	-
Issuance of common shares in connection with:		
Exercise of employee stock options (177,938 shares)....	-	-
Vesting of restricted shares (38,594 shares)	-	-
Stock-based compensation expense (Note 13)	-	-
Net income...	-	-
Cash distributions:		
Cumulative preferred shares (Note 11)..................	(116,091)	-
Equity Shares, Series A ($1.225 per depositary share)..	(10,712)	-
Common Shares ($1.00 per share)........................	(170,018)	-
Accumulated other comprehensive income:		
Foreign currency translation adjustments..............	-	16,344
Balance at June 30, 2007................................	$ (4,144,819)	$ 35,673

See accompanying notes.

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

	For the Six M June
	2007
Cash flows from operating activities:	
Net income...	$ 136,882
Adjustments to reconcile net income to net cash provided by operating	

activities:	
Amortization of note premium, net of increase in debt to joint venture partner (Notes 7 and 8)...	(2,329)
Gain on sales of real estate and real estate investments (Notes 4 and 14)	(2,238)
Depreciation and amortization..	344,082
Equity in earnings of real estate entities...............................	(6,759)
Foreign currency exchange gain...	(10,593)
Income from derivatives, net...	(1,009)
Distributions received from the real estate entities (Note 5)...........	10,535
Minority interest in income..	13,307
Other operating activities...	(2,756)
Total adjustments...	342,240
Net cash provided by operating activities...........................	479,122
Cash flows from investing activities:	
Capital improvements to real estate facilities	(28,807)
Construction in process..	(47,329)
Acquisition of real estate facilities....................................	(28,844)
(Deconsolidation) consolidation of partnerships (Note 2)...............	(65)
Proceeds from sales of real estate.......................................	2,242
Sale of real estate investments to affiliates............................	4,909
Additions to restricted cash...	(306)
Proceeds from sales of held-to-maturity debt securities (Note 2)........	5,766
Net cash used in investing activities...............................	(92,434)
Cash flows from financing activities:	
Principal payments on notes payable......................................	(502,134)
Net repayments on bank credit facilities.................................	(275,000)
Proceeds from borrowings on European notes payable.......................	32,039
Net proceeds from the issuance of common shares..........................	7,125
Net proceeds from the issuance of cumulative preferred shares...........	484,767
Redemption of cumulative preferred shares................................	(302,150)
Issuance of preferred partnership interests..............................	-
Distributions paid to shareholders.......................................	(296,821)
Distributions paid to holders of preferred partnership interests (Note 10)...	(10,806)
Distributions paid to other minority interests...........................	(10,357)
Net cash (used in) provided by financing activities................	(873,337)
Net (decrease) increase in cash and cash equivalents.........................	(486,649)
Net effect of foreign exchange translation on cash...........................	(2,292)
Cash and cash equivalents at the beginning of the year.......................	535,684
Cash and cash equivalents at the end of the period...........................	$ 46,743

See accompanying notes.

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PUBLIC STORAGE

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

(Continued)

Supplemental schedule of non-cash investing and financing activities:

Real estate acquired in exchange for assumption of mortgage note...........	$ -
Mortgage note assumed in connection with acquisition of real estate........	-
Consolidation of entities pursuant to Emerging Issues Task Force Topic 04-5:	
Minority interest - other partnership interests........................	-
Real estate facilities...	-
Investments in real estate entities....................................	-
Other assets...	-
Accrued and other liabilities..	-
Foreign currency translation adjustment:	
Real estate facilities, net of accumulated depreciation.............	(23,790)
Construction in process..	(785)
Intangible assets, net...	(3,470)
Other assets...	(1,072)
Notes payable..	6,579
Accrued and other liabilities..	1,985
Minority interest - other partnership interests......................	1,917
Accumulated other comprehensive income...............................	16,344
Deconsolidation of real estate entities:	
Real estate facilities, net of accumulated depreciation.............	41,409
Investment in real estate entities..................................	(23,079)
Intangible assets, net...	1,816
Other assets...	344
Notes payable..	(19,329)
Accrued and other liabilities..	(544)
Minority interests	(682)

See accompanying notes.

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

1. Description of the Business

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

we have self-storage facilities located in several Western European countries (Note 3).

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

At June 30, 2007, we had direct and indirect equity interests in 2,006 self-storage facilities located in 38 states operating under the "Public Storage" name, and 168 self-storage facilities located in seven Western European nations which operate under the "Shurgard Storage Centers" name. We also have direct and indirect equity interests in approximately 20 million net rentable square feet of commercial space located in 11 states in the United States.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

Consolidation Policy

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

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

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

Collectively, at June 30, 2007, the Company and the Consolidated Entities own a total of 2,150 real estate facilities, consisting of 1,973 self-storage facilities in the United States, 168 facilities in Europe, three industrial facilities used by the containerized storage operations and six commercial properties.

At June 30, 2007, the Unconsolidated Entities are comprised of our equity investments in various limited and joint venture partnerships owning an aggregate of 33 self-storage facilities, as well as our ownership of approximately 44% of the common equity of PS Business Parks, Inc. ("PSB"), which has interests in approximately 19.4 million net rentable square feet of commercial space at June 30, 2007.

Deconsolidation of Certain Entities

On May 24, 2007, a judgment was rendered which resulted in our losing

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

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

	Total
Real estate facilities, net..	$(41,409)
Intangible assets...........	(1,816)
Cash........................	(65)
Other assets................	(344)
Debt........................	19,329
Accrued and other liabilities	544
Minority interest	682
	$(23,079)

Use of Estimates

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

Income Taxes

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

Financial Instruments

We have estimated the fair value of our financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop

estimates of market value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

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

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

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

Due to the acquisition of European subsidiaries in the merger with Shurgard, the results of our operations and our financial position are affected by the fluctuations in the value of the euro, and to a lesser extent, other European currencies, against the U.S. dollar. Also, we are exposed to foreign currency exchange risk related to intercompany transactions, including debt, with or between our European subsidiaries.

Other assets at June 30, 2007 include investments totaling $998,000 ($6,764,000 at December 31, 2006) representing held-to-maturity Federal government agency securities stated at amortized cost, which approximates fair value. Other assets at June 30, 2007 also include derivative financial instruments totaling $5,415,000 ($11,810,000 at December 31, 2006) reported at estimated fair value. See Note 9 for further discussion of the fair value of our derivative financial instruments.

Restricted Cash

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

Real Estate Facilities

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

the estimated useful lives of the buildings and improvements, which are generally between 5 and 25 years.

Evaluation of Asset Impairment

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

We evaluate impairment of long-lived assets on a quarterly basis. We first evaluate these assets for indicators of impairment such as a) a significant decrease in the market price of a long-lived asset, b) a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition, c) a significant adverse change in legal factors or the business climate that could affect the value of the long-lived asset, d) an accumulation of costs significantly in excess of the amount originally projected for the acquisition or construction of the long-lived asset, or e) a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the long-lived asset. When any such indicators of impairment are noted, we compare the carrying value of these assets to the future estimated undiscounted cash flows attributable to these assets. If the asset's recoverable amount is less than the carrying value of the asset, then an impairment charge is booked for the excess of carrying value over the asset's fair value.

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

Accounting for Stock-Based Compensation

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

Other Assets

Other assets primarily consists of prepaid expenses, investments in held-to-maturity debt securities, accounts receivable, assets associated with our containerized storage business, merchandise inventory and rental trucks. Included in other assets is approximately $64 million and $65 million at June 30, 2007 and December 31, 2006, respectively, from our European operations.

Accrued and Other Liabilities

Accrued and other liabilities consist primarily of real property tax accruals, value-added tax accruals with respect to our European operations, prepayments of rents, trade payables, losses and loss adjustment liabilities for our self-insured risks (described below), and accrued interest. Prepaid rent totaled $69,021,000 at June 30, 2007 ($64,291,000 at December 31, 2006), while property and value-added tax accruals approximated $91,303,000 at June 30, 2007 ($80,336,000 at December 31, 2006).

We are self-insured for a portion of the risks associated with our property and casualty losses, workers compensation, and employee health care. We also utilize third-party insurance carriers to limit our self insurance exposure. We accrue liabilities for uninsured losses and loss adjustment expense, which at June 30, 2007 totaled $31,564,000 ($31,532,000 at December 31, 2006). Liabilities for losses and loss adjustment expenses include an amount we determine from loss reports and individual cases and an amount, based on recommendations from an independent actuary that is a member of the American Academy of Actuaries using a frequency and severity method, for losses incurred but not reported. Determining the liability for unpaid losses and loss adjustment expense is based upon estimates.

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

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

Included in accrued and other liabilities is $94,203,000 and $108,331,000 at June 30, 2007 and December 31, 2006, respectively, from our European operations.

Goodwill and Intangible Assets

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

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

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

As a result of the merger with Shurgard (Note 3), we acquired finite-lived intangible assets comprised primarily of tenant intangibles valued at $565,341,000 and the "Shurgard" tradename, which we continue to use in Europe, valued at $18,824,000. Our intangible assets were increased by $3,470,000 during the six months ended June 30, 2007 due to the impact of changes in exchange rates. During the six months ended June 30, 2007, our intangible assets increased $910,000 for storage tenants in place with respect to self-storage facility acquisitions. Also during the six months ended June 30, 2007, our intangible assets decreased $1,816,000 in connection with the deconsolidation of our investment in certain real estate entities (Note 5). Our finite-lived intangible assets are reported net of accumulated amortization of $333,095,000 as of June 30, 2007 ($175,944,000 as of December 31, 2006).

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

Amortization expense of $71,367,000 and $157,151,000 was recorded for our finite-lived intangible assets for the three and six months ended June 30, 2007, respectively. The estimated annual amortization expense for our finite-lived intangible assets for the current year and each of the next four years ending December 31 is as follows:

2007 (remainder of)	$ 89,220,000
2008	73,286,000
2009	24,001,000
2010	14,713,000
2011	11,463,000
2012 and beyond	28,508,000

Revenue and Expense Recognition

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

estate entities is recognized based on our ownership interest in the earnings of each of the Unconsolidated Entities.

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

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

During the second quarter of 2007, a share offering of Shurgard Europe, our European operations, was initiated to be listed on Eurolist of EuronextTM Brussels. Due to adverse market conditions, this offering was withdrawn on June 21, 2007. There is no estimate as to when or if a future offering may occur. We incurred $9.6 million in expenses related to our proposed offering of shares which is included in general and administrative expense for the three and six months ended June 30, 2007.

Foreign Exchange Translation

The local currency is the functional currency for our European subsidiaries. Assets and liabilities (other than for intercompany balances, which are discussed below) are translated at end-of-period exchange rates while revenues and expenses are translated at the average exchange rates in effect during the period. The Euro was translated at an end-of-period exchange rate of approximately 1.347 in US dollars per Euro at June 30, 2007 (1.333 at December 31, 2006). Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss) until the translation adjustments are realized. Included in other accumulated comprehensive income was a cumulative foreign currency translation adjustment gain of $35,673,000 at June 30, 2007 ($19,329,000 at December 31, 2006).

With respect to intercompany balances among our European subsidiaries and our domestic operations, when settlement of such intercompany balances are not expected in the near term (generally within one year), the impact of end-of-period exchange rate changes on the expected settlement amounts in U.S. Dollars are reflected in accumulated other comprehensive income (loss). However, for any other intercompany balances where settlement is expected in the foreseeable future, changes in exchange rates are recorded in income in the period in which the change occurs. For the three and six months ended June 30, 2007, we recorded foreign currency exchange gains of $5,553,000 and $10,593,000, respectively, on our condensed consolidated statement of income, principally related to such intercompany balances. Substantially all of such intercompany balances are expected to settle in the foreseeable future. At June 30, 2007 and December 31, 2006, our European subsidiaries had intercompany balances payable to our United States operations totaling $503,295,000 and $521,072,000, respectively.

Accounting for Casualty Losses

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

Derivative Financial Instruments

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

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

As of June 30, 2007, none of the derivatives were considered effective hedges because we believe it is not highly likely that the debt and the related derivative instruments will remain outstanding for their entire contractual period. Accordingly, all changes in the fair values of the derivatives are reflected in earnings, along with the related cash flows from these instruments, under "Income from derivatives, net" on our condensed consolidated statements of income.

Other Comprehensive Income

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Net income...............	$ 77,104	$ 128,862	$ 136,882	$ 243,078
Accumulated other				

comprehensive income:				
Foreign currency				
translation adjustment	5,933	-	16,344	-
Total comprehensive income	$ 83,037	$ 128,862	$ 153,226	$ 243,078

The foreign currency translation adjustments reflected in the above table represent the net currency translation adjustment gains and losses related to our European subsidiaries, which have not been reflected in net income, measured as from December 31, 2006 through June 30, 2007.

Environmental Costs

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

Discontinued Operations

We segregate all of our disposed components that have operations that can be distinguished from the rest of the Company and will be eliminated from the ongoing operations of the Company in a disposal transaction. Discontinued operations principally consists of the historical operations related to facilities that were closed and are no longer in operation and facilities that have been disposed of either through condemnation by a local governmental agency or sale. In each of the three and six months ended June 30, 2007, income from discontinued operations totaled $18,000.

Net Income per Common Share

In computing net income allocated to our common shareholders, we first allocate net income to our preferred shareholders. Distributions paid to the holders of our Cumulative Preferred Shares totaling $57,315,000 and $116,091,000 for the three and six months ended June 30, 2007, respectively, and $52,376,000 and $98,991,000 for the three and six months ended June 30, 2006, respectively, have been deducted from net income to arrive at net income allocable to our common shareholders.

When we call any of our Cumulative Preferred Shares for redemption, we record an additional allocation of income to our preferred shareholders equal to the excess of a) the cash required to redeem the securities and b) the "Book Value" (the net proceeds from the original issuance of the securities) of the securities. No such additional allocations were recorded in the three or six months ended June 30, 2007 or 2006.

The remaining income allocated to our common shareholders has been further allocated among our our regular common shares and our Equity Shares, Series A. The allocation among each class was based upon the

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two-class method. Under the two-class method, earnings per share for each class of common shares are determined according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under the two-class method, the Equity Shares, Series A, was allocated net income of $5,356,000 and $10,712,000 for each of the three and six months ended June 30, 2007 and 2006, respectively. Income of $14,433,000 and $10,079,000 for the three and six months ended June 30, 2007, respectively, and income of $71,130,000 and $133,375,000 for the three and six months ended June 30, 2006, respectively, was allocated to the regular common shareholders.

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

Recently Issued Accounting Standards

The Fair Value Option for Financial Assets and Financial Liabilities

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

Accounting for Uncertainty in Income Taxes

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

of retained earnings. We adopted the provisions of FIN 48 as of January 1, 2007. The adoption of FIN 48 had no material impact on our financial position, operating results or cash flows. See Note 16 for further discussion of our adoption of FIN 48.

Fair Value Measurement

In 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards

require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the impact to be material to our financial condition or results of operations.

3. Merger with Shurgard

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

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

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

4. Real Estate Facilities

Activity in real estate facilities is as follows:

	Six Months Ended June 30, 2007
	(Amounts in thousands)
Real estate facilities, at cost:	
Balance at December 31, 2006.......................	$ 11,261,865

Newly developed facilities opened for operations....	39,507
Acquisition of real estate facilities..............	27,934
Deconsolidation of Entities (Note 2)	(42,473)
Disposition of real estate facilities..............	(2,454)
Capital improvements...............................	28,807
Impact of foreign exchange rate changes............	26,392
Balance at June 30, 2007...........................	11,339,578
Accumulated depreciation:	
Balance at December 31, 2006.......................	(1,754,362)
Deconsolidation of Entities (Note 2)	1,064
Additions during the year..........................	(185,545)
Dispositions during the year.......................	1,256
Impact of foreign exchange rate changes............	(2,602)
Balance at June 30, 2007...........................	(1,940,189)
Construction in process:	
Balance at December 31, 2006.......................	90,038
Current development................................	47,329
Newly developed facilities opened for operations....	(39,507)
Impact of foreign exchange rate changes............	785
Balance at June 30, 2007...........................	98,645
Total real estate facilities at June 30, 2007.........	$ 9,498,034

During the six months ended June 30, 2007, we completed four development and five expansion projects which in aggregate added approximately 266,000 net rentable square feet of self-storage space at a total cost of $39,507,000. In addition, we acquired two self-storage facilities (132,000 net rentable square feet) from third parties for an aggregate cost of $28,844,000, in cash; $27,934,000 was allocated to real estate facilities and $910,000 was allocated to intangibles, based upon the relative fair values of the land, buildings and intangibles.

Construction in process at June 30, 2007 includes 41 projects (1,786,000 net rentable square feet), consisting of newly developed self-storage facilities, conversion of space at facilities that was previously used for containerized storage and expansions to existing self-storage facilities, with costs incurred of $48,835,000 at June 30, 2007 and total estimated costs to complete of $99,558,000. In addition, we have 15 projects to develop new self-storage facilities in Europe (765,000 aggregate net rentable square feet), with costs incurred at June 30, 2007 of $49,810,000 and total estimated costs to complete of $89,015,000.

We capitalize interest incurred on debt during the course of construction of our self-storage facilities. Interest capitalized for the three and six months ended June 30, 2007 was $973,000 and $1,714,000,

respectively, as compared to $353,000 and $1,069,000 for the same periods in 2006.

During the six months ended June 30, 2007, we have received proceeds for partial condemnations and other disposals to certain of our self-storage facilities for an aggregate of $2,242,000 and recorded a gain of $1,044,000 as a result of these transactions. In connection with the sale of limited liability partner interests in Shurgard Europe (Note 10), we also recorded a gain of $1,194,000 for the three and six months ended June 30, 2007, representing the excess of the sales proceeds less the book value of the interests sold. The gain is reflected in gain on disposition of real estate investments on our accompanying condensed consolidated statements of income.

Included in real estate facilities, accumulated depreciation, and construction in process is $1.5 billion with respect to our European operations at June 30, 2007.

5. Investment in Real Estate Entities

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

For the three and six months ended June 30, 2007, we recognized earnings from our investments in real estate entities of $2,782,000 and $6,759,000, respectively, as compared to $3,124,000 and $6,590,000 for the same periods in 2006.

We received cash distributions from our investments in real estate entities for the six months ended June 30, 2007 and 2006, of $10,535,000 and $10,415,000, respectively.

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

	Investments in Real Estate Entities at		Equity in Earnings of Real Estate Entities for the Three Months Ended June 30,		Equity in Earnings of Real Estate Entities for the Six Months Ended June 30,	
	June 30, 2007	December 31, 2006	2007	2006	2007	2006
PSB..............	$ 280,125	$ 283,700	$ 2,224	$ 2,640	$ 5,714	$ 5,616
Other Investments	41,083	18,205	558	484	1,045	974
Total..........	$ 321,208	$ 301,905	$ 2,782	$ 3,124	$ 6,759	$ 6,590

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Investment in PSB

PS Business Parks, Inc. is a REIT traded on the American Stock Exchange, which controls an operating partnership (collectively, the REIT and the operating partnership are referred to as "PSB"). We have a 44% common equity interest in PSB as of June 30, 2007. This common equity interest is comprised of our ownership of 5,418,273 shares of PSB's common stock and 7,305,355 limited partnership units in the operating partnership at both June 30, 2007 and December 31, 2006; these limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at June 30, 2007 ($63.37 per share of PSB common stock), the shares and units had a market value of approximately $806.3 million as compared to a book value of $280.1 million.

At June 30, 2007, PSB owned approximately 19.4 million net rentable square feet of commercial space. In addition, PSB manages commercial space owned by the Company and the Consolidated Entities pursuant to property management agreements.

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

	2007	2006
	(Amounts in thousands)	
For the six months ended June 30,		
Total operating revenue	$ 132,764	$ 118,208
Costs of operations and other operating expenses	(45,275)	(39,663)
Other income and expense, net	871	2,543
Depreciation and amortization	(46,556)	(41,536)
Discontinued operations	-	1,643
Minority interest	(6,675)	(8,227)
Net income	$ 35,129	$ 32,968

	At June 30, 2007	At December 31, 2006
	(Amounts in thousands)	

Total assets (primarily real estate).............	$ 1,553,568	$ 1,462,864
Total debt.......................................	61,392	67,048
Other liabilities................................	43,974	42,394
Preferred equity and preferred minority interests.	811,000	705,250
Common equity and common minority interests.......	637,202	648,172

Other Investments

Other investments consist primarily of an average of approximately 29% common equity ownership in 12 entities that own an aggregate of 33 self-storage facilities that we held on a consistent basis for each of the three and six months ended June 30, 2007 and 2006, respectively.

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

	2007	2006
	(Amounts in thousands)	
For the six months ended June 30,		
Total revenue........................	$ 11,535	$ 10,607
Cost of operations and other expenses	(5,384)	(5,066)
Depreciation and amortization........	(1,596)	(1,365)
Net income......................	$ 4,555	$ 4,176

	At June 30, 2007	At December 31, 2006
	(Amounts in thousands)	
Total assets (primarily storage facilities).....................	$ 72,841	$ 73,031
Total liabilities...................	21,096	21,112
Total Partners' equity..............	51,745	51,919

6. Revolving Line of Credit

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

On March 27, 2007, we entered into a five-year revolving credit agreement (the "Credit Agreement") with an aggregate limit with respect to borrowings and letters of credit of $300 million, and bears an annual interest rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.35% to LIBOR plus 1.00% depending on our credit ratings (LIBOR plus 0.35% at June 30, 2007). In addition, we are required to pay a quarterly facility fee ranging from 0.10% per annum to 0.25% per annum depending on our credit ratings (0.10% per annum at June 30, 2007). Outstanding borrowings on our revolving line of credit totaled $70 million at June 30, 2007.

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

At June 30, 2007, we had undrawn standby letters of credit, which reduce our borrowing capability with respect to our line of credit by the amount of the letter of credit, totaling $20,653,000 ($21,068,000 at December 31, 2006). The beneficiaries of these standby letters of credit were primarily certain insurance companies associated with our captive insurance and tenant re-insurance activities.

7. Notes Payable

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

	June 30, 2007	December 31, 2006
Domestic Unsecured Notes Payable:		
5.875% effective and stated note rate, interest only and payable semi-annually matures in March 2013.........................	$ 200,000	$ 200,000
5.73% effective rate, 7.75% stated note rate, interest only and payable semi-annually, matures in February 2011 (carrying amount includes $12,700 of unamortized premium at June 30, 2007)	212,700	214,033
6.53% effective rate, 7.625% stated note rate, interest only and payable semi-annually, due April 2007...............................	-	50,119
7.66% senior unsecured note due January 2007......	-	11,200
Domestic Mortgage Notes:		

5.59% average effective rate fixed rate mortgage notes payable, secured by 53 real estate facilities with a net book value of $411,191 at June 30, 2007 and stated note rates between 4.95% and 7.76%, due between July 2007 and August 2015 (carrying amount includes $3,706 of unamortized premium at June 30, 2007)	145,832	166,737
Variable rate mortgage notes payable due December 2007................................	-	8,428
5.29% average effective rate fixed rate mortgage notes payable, secured by 33 real estate facilities with a net book value of $189,315 at June 30, 2007, stated note rates between 5.40% and 8.75%, principal and interest payable monthly, due at varying dates between October 2009 and September 2028 (carrying amount includes $4,005 of unamortized premium at June 30, 2007................................	89,179	91,489
European Secured Notes Payable:		
(euro)325 million notes payable due originally in 2011, but prepaid in January 2007..........	-	428,760
First and Second Shurgard credit agreement, due in 2008 and 2009, secured by 63 real estate facilities with a net book value of $488,588 at June 30, 2007 (interest rate of EURIBOR + 2.25%, 6.033% average for the six months ended June 30, 2007, 6.372% rate at June 30, 2007 which approximate market rates)	326,597	288,918
Liability under Capital Leases....................	6,710	6,600
Total notes payable.......................	$ 981,018	$ 1,466,284

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

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

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

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

First Shurgard and Second Shurgard, joint venture partnerships in which we have a 20% interest, (see Note 10) have senior credit agreements denominated in euros to borrow, in aggregate, up to (euro)271 million ($365.1 million as of June 30, 2007; $357.5 million as of December 31, 2006). As of June 30, 2007, the available amount under those credit facilities was, in aggregate, (euro)28 million ($37.7 million) and (euro)52 million ($68.6 million), respectively. Our draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis, or on an acquisition project basis when applicable for Second Shurgard, and can be limited if the completion of projects is not timely and if we have certain cost overruns. The credit facilities also require us to maintain a maximum loan to value of the collateral ratio and a minimum debt service ratio. As of June 30, 2007, we were in compliance with these financial covenants.

At June 30, 2007, approximate principal maturities of our notes payable are as follows (amounts in thousands):

	Domestic Unsecured Notes Payable	Domestic Mortgage Notes	European Note Payable	Liabilities under Capital Leases	Total
2007 (remainder of).	$ 1,631	$ 4,253	$ 1,617	$ 39	$ 7,540
2008................	3,404	20,505	174,078	106	198,093
2009................	3,605	8,707	150,902	116	163,330
2010................	3,817	10,584	-	81	14,482
2011................	200,243	27,355	-	739	228,337
Thereafter..........	200,000	163,607	-	5,629	369,236
	$ 412,700	$ 235,011	$ 326,597	$ 6,710	$ 981,018
Weighted average effective rate	5.8%	5.4%	6.1%	9.9%	5.8%

We incurred interest expense with respect to our notes payable, capital leases, debt to joint venture partner and line of credit aggregating $35,229,000 and $4,498,000 for the six months ended June 30, 2007 and 2006, respectively. These amounts were comprised of $37,558,000 and $4,972,000 in cash for the six months ended June 30, 2007 and 2006, respectively, less $2,329,000 and $474,000 in amortization of premium, respectively.

The net book value of the properties under capital leases was

$30,070,000 as of June 30, 2007, which is net of accumulated depreciation of $1,064,000.

8. Debt to Joint Venture Partner

On December 31, 2004, we sold seven self-storage facilities to an unconsolidated affiliated joint venture for $22,993,000. On January 14, 2005, we sold an 86.7% interest in three additional self-storage facilities to the joint venture for an aggregate amount of $27,424,000. Our partner's combined equity contribution with respect to these transactions was $35,292,000. Due to our continuing interest in these facilities and the

likelihood that we will exercise our option to acquire our partner's interest, we have accounted for our partner's investment in these facilities as, in substance, debt financing. Accordingly, our partner's investment with respect to these facilities is accounted for as a liability on our accompanying consolidated balance sheets. Our partner's share of operations with respect to these facilities has been accounted for as interest expense on our accompanying consolidated statements of income.

The outstanding balances of $37,350,000 and $37,258,000 due the joint venture partner as of June 30, 2007 and December 31, 2006, respectively, approximate the fair value of our partner's interest in these facilities as of each respective date. On a quarterly basis, we review the fair value of this liability, and to the extent fair value exceeds the carrying value of the liability, an adjustment is made to increase the liability to fair value, and to increase other assets, with the other assets amortized over the remaining period term of the joint venture. We increased the note balance by $1,386,000 during 2006 as a result of our periodic review of fair value.

A total of $1,583,000 and $1,516,000 was recorded as interest expense on our condensed consolidated statements of income with respect to our Debt to Joint Venture Partner during the six months ended June 30, 2007 and 2006, respectively, representing our partner's pro rata share of net earnings with respect to the properties we sold to the Acquisition Joint Venture (an 8.5% return on their investment). This interest expense was comprised of a total of $1,492,000 and $1,429,000 paid to our joint venture partner (an 8.0% return payable currently in accordance with the partnership agreement) during the six months ended June 30, 2007 and 2006, respectively, and increases in the Debt to Joint Venture Partner of $91,000 and $87,000 for the six months ended June 30, 2007 and 2006, respectively.

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

9. Derivative Financial Instruments

As described in Note 2, under Derivative Financial Instruments, we report these derivative financial instruments at fair value on our consolidated balance sheet and changes in fair values for the six months

ended June 30, 2007, have been recognized in earnings. The respective balances of these financial instruments are included in other assets and accrued and other liabilities as follows:

	June 30, 2007	December 31, 2006
	(Amounts in thousands)	
Assets:		
Interest rate contracts.......	$ 5,415	$ 11,810
Liabilities:		
Interest rate contracts.......	$ -	$ (4,162)
Foreign currency exchange contracts....................	(1,601)	(7,837)
	$ (1,601)	$ (11,999)

For the six months ended June 30, 2007, net income from derivatives of $1,009,000 was comprised of a change in value of the related instruments representing gain of $1,137,000, offset by $128,000 in net payments incurred during the period under the underlying instruments.

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

10. Minority Interest

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

Preferred Partnership Interests

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

			June 30, 2007		December 31, 2006	
Series	Earliest Redemption Date or Dates Redeemed	Distribution Rate	Units Outstanding	Carrying Amount	Units Outstanding	Carrying Amount
			(Amounts in thousands)			
Series NN.......	March 17, 2010	6.400%	8,000	$200,000	8,000	$ 200,000

Series Z........	October 12, 2009	6.250%	1,000	25,000	1,000	25,000
Series J........	May 9, 2011	7.250%	4,000	100,000	4,000	100,000
Total...........			13,000	$325,000	13,000	$ 325,000

Income allocated to the preferred minority interests totaled $10,806,000 and $8,249,000 for the six months ended June 30, 2007 and 2006, respectively, comprised of distributions paid.

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

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

Other Partnership Interests

Income is allocated to the minority interests based upon their pro rata interest in the operating results of the Consolidated Entities. The following tables set forth the minority interests at June 30, 2007 and December 31, 2006 as well as the income allocated to minority interests for the three and six months ended June 30, 2007 and 2006 with respect to the other partnership interests (amounts in thousands):

	Minority Interest at	
Description	June 30, 2007	December 31, 2006
European joint ventures..........	$ 136,132	$ 140,034
European investors...............	3,715	-
Convertible Partnership Units.....	5,517	5,710
Other consolidated partnerships...	32,760	35,286
Total other partnership interests.	$ 178,124	$ 181,030

	Minority Interests in Income (Loss) for the Three Months Ended		Minority Interests in Income (Loss) for the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,

Description	2007	2006	2007	2006
European joint ventures..........	$(2,065)	$ -	$(5,819)	$ -
European investors...............	-	-	-	-
Convertible Partnership Units....	19	120	11	236
Other consolidated partnerships..	4,167	3,950	8,309	7,402
Total other partnership interests	$ 2,121	$4,070	$ 2,501	$ 7,638

Distributions paid to minority interests for the three months ended June 30, 2007 and 2006 were $4,856,000 and $3,636,000, respectively, and for the six months ended June 30, 2007 and 2006 were $10,357,000 and $7,348,000, respectively. Minority interests increased $1,917,000 as a result of the impact of foreign currency translation in the six months ended June 30, 2007.

European Joint Ventures

Through the merger with Shurgard, we acquired two joint venture entities: First Shurgard SPRI ("First Shurgard") formed in January 2003 and Second Shurgard SPRL ("Second Shurgard") formed in May 2004. Those joint ventures were expected to develop or acquire up to approximately 75 storage facilities in Europe. Through a wholly-owned subsidiary, we have a 20% interest in each of these ventures. We have determined that First Shurgard and Second Shurgard are each VIEs, and that we are the primary beneficiary. Accordingly, First Shurgard and Second Shurgard have been consolidated in our consolidated financial statements. At June 30, 2007, First Shurgard and Second Shurgard had aggregate total assets of $523.5 million ($497.2 million at December 31, 2006), total liabilities of $356.1 million ($322.1 million at December 31, 2006), and credit facilities collateralized by assets with a net book value of $488.6 million ($461.6 million at December 31, 2006). At June 30, 2007, First Shurgard's and Second Shurgard's creditors had no recourse to the general credit of Public Storage or Shurgard Europe other than a commitment, to subscribe to up to $20 million and an additional $10.1 million as of June 30, 2007 in preferred bonds in order for First Shurgard to fulfill its obligations under its senior credit agreement. We have an option to put 80% of the bonds issued by First Shurgard to Crescent Euro Self Storage Investments, Shurgard Europe's partner in the joint venture.

On September 5, 2006, we informed the joint venture partners of First Shurgard and Second Shurgard of our intention to purchase their interests in First Shurgard and Second Shurgard, pursuant to an "exit procedure" that we believe is provided for in the respective agreements. The exit procedure can, in certain circumstances, result in a third party acquiring the facilities owned by First and Second Shurgard, including our interest in these facilities. Our joint venture partners currently contest whether we have the right to purchase their interests under this procedure. On January 17, 2007, we filed an arbitration action with our joint venture partner related to our intention to terminate the joint venture early. As part of our efforts to resolve our dispute with our joint venture partner, we have entered into an agreement to exchange their interest in the joint ventures for shares in Shurgard Europe.

European Investors

On May 14, 2007, one of our European subsidiaries sold limited liability partner interests ("LLP Interests") it held in Shurgard Self-Storage SCA, ("Shurgard Europe"), also an indirect subsidiary of

Public Storage, to various officers of the Company, other than our chief executive officer. The aggregate proceeds of the sale were $4,909,000. The sale price for the LLP Interests was the net asset value per LLP Interest using, among other items, information provided by an independent third party appraisal firm of the net asset value of Shurgard Europe as of March 31, 2007. The Company has a right to repurchase the LLP Interests upon (1) upon a purchaser's termination of employment or (2) for any reason, on or after May 14, 2008. The repurchase price is set at the lesser of (1) the then net asset value per share or (2) the original purchase price with a 10% compounded annual return. In connection with the sale of these LLP

Interests, we recorded a gain of $1,194,000 for the three and six months ended June 30, 2007, representing the excess of the sales proceeds less the book value of the LLP Interests sold. The gain is reflected in gain on disposition of real estate investments on our accompanying condensed consolidated statements of income. The investment of these various officers is included in minority interest - other partnership interests on our accompanying condensed consolidated balance sheet at June 30, 2007 and their pro rata share of the earnings of Shurgard Europe are reflected in minority interest in income - other partnership interests on our accompanying condensed consolidated statements of income for the three and six months ended June 30, 2007.

Convertible Partnership Units

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

Other Consolidated Partnerships

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

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

real estate ($50,123,000).

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

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

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

Impact of SFAS No. 150

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS No. 150"). This

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

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

11. Shareholders' Equity

Cumulative Preferred Shares

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

Series	Earliest Redemption Date	Dividend Rate	At June 30, 2007 Shares Outstanding	At June 30, 2007 Carrying Amount	At December 31, 2006 Shares Outstanding	At December 31, 2006 Carrying Amount
			(Dollar amounts in thousands)			
Series V	9/30/07	7.500%	6,900	$ 172,500	6,900	$ 172,500
Series W	10/6/08	6.500%	5,300	132,500	5,300	132,500
Series X	11/13/08	6.450%	4,800	120,000	4,800	120,000
Series Y	1/2/09	6.850%	1,600,000	40,000	1,600,000	40,000
Series Z	3/5/09	6.250%	4,500	112,500	4,500	112,500
Series A	3/31/09	6.125%	4,600	115,000	4,600	115,000
Series B	6/30/09	7.125%	4,350	108,750	4,350	108,750
Series C	9/13/09	6.600%	4,600	115,000	4,600	115,000
Series D	2/28/10	6.180%	5,400	135,000	5,400	135,000
Series E	4/27/10	6.750%	5,650	141,250	5,650	141,250
Series F	8/23/10	6.450%	10,000	250,000	10,000	250,000
Series G	12/12/10	7.000%	4,000	100,000	4,000	100,000
Series H	1/19/11	6.950%	4,200	105,000	4,200	105,000
Series I	5/3/11	7.250%	20,700	517,500	20,700	517,500
Series K	8/8/11	7.250%	18,400	460,000	18,400	460,000
Series L	10/20/11	6.750%	9,200	230,000	9,200	230,000
Series M	1/9/12	6.625%	20,000	500,000	-	-
Total Cumulative Preferred Shares			1,732,600	$ 3,355,000	1,712,600	$ 2,855,000

The holders of our Cumulative Preferred Shares have general preference rights with respect to liquidation and quarterly distributions. Holders of the preferred shares, except under certain conditions and as noted below,

will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends or failure to maintain a Debt Ratio (as defined) of 50% or less, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on the Company's Board until events of default have been cured. At June 30, 2007, there were no dividends in arrears and the Debt Ratio was 9.6%.

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

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

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

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

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

Equity Shares

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

Equity Shares, Series A

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

Except in order to preserve the Company's Federal income tax status as a REIT, we may not redeem the depositary shares representing the Equity Shares A before March 31, 2010. On or after March 31, 2010, we may, at our option, redeem the depositary shares at $24.50 per depositary share. If the Company fails to preserve its Federal income tax status as a REIT, each of the depositary shares will be convertible at the option of the shareholder

into .956 common shares. The dep