

Public Storage  
Form 10-Q  
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-33519

PUBLIC STORAGE

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	95-3551121 (I.R.S. Employer Identification Number)
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701 Western Avenue, Glendale, California (Address of principal executive offices)	91201-2349 (Zip Code)
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Registrant's telephone number, including area code: (818) 244-8080.

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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Indicate the number of the registrant's outstanding common shares of beneficial interest, as of November 3, 2015:

Common Shares of beneficial interest, \$.10 par value per share – 173,155,582 shares

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PUBLIC STORAGE

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## PUBLIC STORAGE

## BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 35,668	\$ 187,712
Real estate facilities, at cost:		
Land	3,533,393	3,476,883
Buildings	9,559,470	9,386,352
	13,092,863	12,863,235
Accumulated depreciation	(4,767,104)	(4,482,520)
	8,325,759	8,380,715
Construction in process	174,622	104,573
	8,500,381	8,485,288
Investments in unconsolidated real estate entities	806,204	813,740
Goodwill and other intangible assets, net	212,976	228,632
Other assets	99,586	103,304
Total assets	\$ 9,654,815	\$ 9,818,676

## LIABILITIES AND EQUITY

Notes payable	\$ 55,725	\$ 64,364
Preferred shares called for redemption (Note 8)	125,000	-
Accrued and other liabilities	295,482	247,141
Total liabilities	476,207	311,505

Commitments and contingencies (Note 12)

## Equity:

Public Storage shareholders' equity:

Preferred Shares, \$0.01 par value, 100,000,000 shares authorized,  
162,200 shares issued (in series) and outstanding, (173,000 at

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December 31, 2014), at liquidation preference	4,055,000	4,325,000
Common Shares, \$0.10 par value, 650,000,000 shares authorized, 172,853,700 shares issued and outstanding (172,445,554 shares at December 31, 2014)	17,286	17,245
Paid-in capital	5,591,664	5,561,530
Accumulated deficit	(444,395)	(374,823)
Accumulated other comprehensive loss	(67,437)	(48,156)
Total Public Storage shareholders' equity	9,152,118	9,480,796
Noncontrolling interests	26,490	26,375
Total equity	9,178,608	9,507,171
Total liabilities and equity	\$ 9,654,815	\$ 9,818,676

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Self-storage facilities	\$ 580,976	\$ 534,271	\$ 1,662,641	\$ 1,520,661
Ancillary operations	37,896	32,819	109,725	94,954
	618,872	567,090	1,772,366	1,615,615
Expenses:				
Self-storage cost of operations	152,010	146,979	461,078	445,474
Ancillary cost of operations	12,676	11,589	36,715	35,473
Depreciation and amortization	106,082	111,077	319,701	326,541
General and administrative	23,573	17,874	68,721	52,240
	294,341	287,519	886,215	859,728
Operating income	324,531	279,571	886,151	755,887
Interest and other income	3,659	3,830	11,509	13,674
Interest expense	-	(1,238)	-	(6,781)
Equity in earnings of unconsolidated real estate entities	12,603	14,566	36,267	43,305
Foreign currency exchange loss	-	(3,012)	-	(7,035)
Gain on real estate sales	343	1,260	18,503	2,479
Net income	341,136	294,977	952,430	801,529
Allocation to noncontrolling interests	(1,568)	(1,518)	(4,676)	(4,040)
Net income allocable to Public Storage shareholders	339,568	293,459	947,754	797,489
Allocation of net income to:				
Preferred shareholders	(61,062)	(60,763)	(186,066)	(170,942)
Preferred shareholders - redemptions (Note 8)	(4,113)	-	(8,897)	-
Restricted share units	(885)	(881)	(2,744)	(2,328)
Net income allocable to common shareholders	\$ 273,508	\$ 231,815	\$ 750,047	\$ 624,219
Net income per common share:				
Basic	\$ 1.58	\$ 1.34	\$ 4.34	\$ 3.63
Diluted	\$ 1.58	\$ 1.34	\$ 4.32	\$ 3.61
Basic weighted average common shares outstanding	172,771	172,378	172,641	172,190
Diluted weighted average common shares outstanding	173,529	173,304	173,428	173,098
Cash dividends declared per common share	\$ 1.70	\$ 1.40	\$ 4.80	\$ 4.20



See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 341,136	\$ 294,977	\$ 952,430	\$ 801,529
Other comprehensive income (loss):				
Aggregate foreign currency exchange loss	(5,914)	(26,339)	(19,281)	(34,430)
Adjust for foreign currency exchange loss included in net income	-	3,012	-	7,035
Other comprehensive loss	(5,914)	(23,327)	(19,281)	(27,395)
Total comprehensive income	335,222	271,650	933,149	774,134
Allocation to noncontrolling interests	(1,568)	(1,518)	(4,676)	(4,040)
Comprehensive income allocable to Public Storage shareholders	\$ 333,654	\$ 270,132	\$ 928,473	\$ 770,094

See accompanying notes.

## PUBLIC STORAGE

## STATEMENT OF EQUITY

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

(Unaudited)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2014	\$ 4,325,000	\$ 17,245	\$ 5,561,530	\$ (374,823)	\$ (48,156)	\$ 9,480,796	\$ 26,375	\$ 9,507,171
Redemption of 10,800 preferred shares (Note 8)	(270,000)	-	-	-	-	(270,000)	-	(270,000)
Issuance of common shares in connection with share-based compensation (408,146 shares) (Note 10)	-	41	25,873	-	-	25,914	-	25,914
Cash paid in lieu of common shares, net of share-based compensation expense (Note 10)	-	-	9,646	-	-	9,646	-	9,646
Acquisition of noncontrolling interests	-	-	(5,385)	-	-	(5,385)	(58)	(5,443)
Contributions by noncontrolling interests	-	-	-	-	-	-	984	984
Net income	-	-	-	952,430	-	952,430	-	952,430
Net income allocated to noncontrolling interests	-	-	-	(4,676)	-	(4,676)	4,676	-

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Distributions to equity holders:								
Preferred shares (Note 8)	-	-	-	(186,066)	-	(186,066)	-	(186,066)
Noncontrolling interests	-	-	-	-	-	-	(5,487)	(5,487)
Common shares and restricted share units (\$4.80 per share)	-	-	-	(831,260)	-	(831,260)	-	(831,260)
Other comprehensive loss (Note 2)	-	-	-	-	(19,281)	(19,281)	-	(19,281)
Balances at September 30, 2015	\$ 4,055,000	\$ 17,286	\$ 5,591,664	\$ (444,395)	\$ (67,437)	\$ 9,152,118	\$ 26,490	\$ 9,178,608

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 952,430	\$ 801,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on real estate sales	(18,503)	(2,479)
Depreciation and amortization	319,701	326,541
Distributions received from unconsolidated real estate entities less than equity in earnings	(10,217)	(7,852)
Foreign currency exchange loss	-	7,035
Other	54,658	28,375
Total adjustments	345,639	351,620
Net cash provided by operating activities	1,298,069	1,153,149
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(52,939)	(65,600)
Construction in process	(159,527)	(76,135)
Acquisition of real estate facilities and intangible assets	(104,915)	(271,228)
Proceeds from sale of real estate facilities	15,013	2,581
Disposition of portion of loan receivable from Shurgard Europe	-	216,217
Repayments of loan receivable from Shurgard Europe	-	204,947
Other	16,282	(1,000)
Net cash (used in) provided by investing activities	(286,086)	9,782
Cash flows from financing activities:		
Repayments on bank credit facility	-	(50,100)
Repayments on term loan	-	(700,000)
Repayments on notes payable	(16,741)	(21,994)
Issuance of preferred shares	-	555,106
Issuance of common shares	25,914	35,910
Redemption of preferred shares	(145,000)	-
Acquisition of noncontrolling interests	(5,443)	-
Contributions by noncontrolling interests	984	-
Distributions paid to Public Storage shareholders	(1,017,326)	(896,670)

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Distributions paid to noncontrolling interests	(5,487)	(5,220)
Net cash used in financing activities	(1,163,099)	(1,082,968)
Net (decrease) increase in cash and cash equivalents	(151,116)	79,963
Net effect of foreign exchange translation on cash and cash equivalents	(928)	(880)
Cash and cash equivalents at the beginning of the period	187,712	19,169
Cash and cash equivalents at the end of the period	\$ 35,668	\$ 98,252

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Supplemental schedule of non-cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	\$ 691	\$ 165
Investments in unconsolidated real estate entities	17,662	26,410
Loan receivable from Shurgard Europe	-	6,975
Accumulated other comprehensive loss	(19,281)	(34,430)
Preferred shares called for redemption and reclassified to liabilities	125,000	-
Preferred shares called for redemption and reclassified from equity	(125,000)	-
Real estate acquired in exchange for assumption of notes payable	(8,624)	(5,097)
Notes payable assumed in connection with acquisition of real estate	8,624	5,097
Accrued construction costs and capital expenditures:		
Capital expenditures to maintain real estate facilities	64	2,001
Construction in process	(316)	(3,892)
Accrued and other liabilities	252	1,891

See accompanying notes.

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(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 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, ancillary activities such as merchandise sales and tenant reinsurance to the tenants at our self-storage facilities, as well as the acquisition and development of additional self-storage space.

At September 30, 2015, we have direct and indirect equity interests in 2,266 self-storage facilities (with approximately 147 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name. We also own one self-storage facility in London, England, and we have a 49% interest in Shurgard Europe, which owns 216 self-storage facilities (with approximately 11 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 million net rentable square feet of commercial space located in 10 states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At September 30, 2015, we have an approximate 42% common equity interest in PSB.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) as defined in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (the “Codification”), including guidance with respect to interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. While they do not include all of the disclosures required by GAAP for complete financial statements, we believe that we have included all adjustments (consisting of normal and recurring adjustments) necessary for a fair presentation. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 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, 2014.

Certain amounts previously reported in our September 30, 2014 financial statements have been reclassified to conform to the September 30, 2015 presentation. We reclassified the revenues and cost of operations, net for our wholly-owned commercial facilities and property management operations as interest and other income (an aggregate of approximately \$3.1 million and \$9.5 million for the three and nine months ended September 30, 2014, respectively), rather than as ancillary revenues and ancillary cost of operations. We also revised our reportable



segment presentation in Note 11, including renaming (i) our “Domestic Self-Storage” segment to “Self-Storage Operations,” (ii) our “European Self-Storage” segment to “Investment in Shurgard Europe,” (iii) our “Commercial” segment to “Investment in PSB,” removing our commercial facilities’ operations from this segment, and (iv) presenting a new segment called “Ancillary Operations” reflecting the sale of merchandise at our self-storage facilities and reinsurance of policies covering losses to goods stored by our tenants at our facilities. Each of these reclassifications reflects changes to enhance the usefulness of this information based upon the relative significance of these activities to our aggregate operating results.

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

Consolidation and Equity Method of Accounting

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

We consolidate all entities that we control (these entities, for the period in which the reference applies, are referred to collectively as the “Subsidiaries”), and we eliminate intercompany transactions and balances. We account for our investments in entities that we have significant influence over, but do not control, using the equity method of accounting (these entities, for the periods in which the reference applies, are referred to collectively as the “Unconsolidated Real Estate Entities”), eliminating intra-entity profits and losses and amortizing any differences between the cost of our investment and the underlying equity in net assets against equity in earnings as if the Unconsolidated Real Estate Entity were a consolidated subsidiary. When we obtain control of an Unconsolidated Real Estate Entity, we commence consolidating the entity and record a gain representing the differential between the book value and fair value of our preexisting equity interest. All changes in consolidation status are reflected prospectively.

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

Collectively, at September 30, 2015, the Company and the Subsidiaries own 2,254 self-storage facilities in the U.S., one self-storage facility in London, England and four commercial facilities in the U.S. At September 30, 2015, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 12 self-storage facilities in the U.S. (these limited partnerships, for the periods in which the reference applies, are referred to as the “Other Investments”).

Use of Estimates

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

Income Taxes

We have elected to be treated as a real estate investment trust (“REIT”), as defined in the Internal Revenue Code of 1986, as amended (the “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 2015, 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.

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

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of September 30, 2015, we had no tax benefits that were not recognized.

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to develop, construct, renovate and improve facilities, 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.

We allocate the net acquisition cost of acquired operating self-storage facilities to the underlying land, buildings, identified intangible assets, and any noncontrolling interests that remain outstanding 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 rents receivable from our tenants, prepaid expenses and restricted cash.

Accrued and Other Liabilities

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

Cash Equivalents, Marketable Securities and Other Financial Instruments

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

Transfers of financial assets are recorded as sales when the asset is put presumptively beyond our and our creditors' reach, there is no impediment to the transferee's right to pledge or exchange the asset, we have surrendered effective control of the asset, we have no actual or effective right or requirement to repurchase the asset and, in the case of a transfer of a participating interest, there is no impediment to our right to pledge or exchange the participating interest we retain.

Fair Value Accounting

As used herein, the term “fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We prioritize the inputs used in measuring fair value based upon a three-tier hierarchy described in Codification Section 820-10-35. Our estimates of fair value involve considerable judgment and are not necessarily indicative of the amounts that could be realized in current market exchanges.

We believe that, during all periods presented, the carrying values approximate the estimated fair values of our cash and cash equivalents, 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

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

considerable judgment. 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 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 these fair values, we consider significant unobservable inputs such as market prices of land, market capitalization rates and earnings multiples for real estate facilities, projected levels of earnings, costs of construction, functional depreciation, and market interest rates for debt securities with a similar time to maturity and credit quality, which are “Level 3” inputs as the term is defined in Codification Section 820-10-35-52.

Currency and Credit Risk

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, certain portions of other assets including rents receivable from our tenants and restricted cash. Cash equivalents 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 September 30, 2015, due primarily to our investment in Shurgard Europe, our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

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

Goodwill totaled \$174.6 million at September 30, 2015 and December 31, 2014. The “Shurgard” trade name, which is used by Shurgard Europe pursuant to a fee-based licensing agreement, has a book value of \$18.8 million at September 30, 2015 and December 31, 2014. Goodwill and the “Shurgard” trade name have indefinite lives and are not amortized.

Acquired customers in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the customers in place or the benefit to land lease expense to each period. At September 30, 2015, these intangibles had a net book value of \$19.5 million (\$35.2 million at December 31, 2014). Accumulated amortization totaled \$74.2 million at September 30, 2015 (\$69.3 million at December 31, 2014), and amortization expense of \$21.3 million and \$37.4 million was recorded in the nine months ended September 30, 2015 and 2014, respectively. The estimated future amortization expense for our finite-lived intangible assets at September 30, 2015 is approximately \$4.2 million in the remainder of 2015, \$7.5 million in 2016 and \$7.8 million thereafter. During the nine months ended September 30, 2015, intangibles were increased \$5.7 million in connection with the acquisition of self-storage facilities (Note 3).

Evaluation of Asset Impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the asset is not recoverable from future undiscounted cash flows to be received through the asset's remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset's estimated fair value or net proceeds from expected disposal.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

We evaluate our investments in unconsolidated real estate entities for impairment on a quarterly basis. We record an impairment charge to the extent the carrying amount exceeds estimated fair value, when we believe any such shortfall is other than temporary.

We evaluate goodwill for impairment annually and whenever relevant events, circumstances and other related factors indicate that fair value of the related reporting unit may be less than the carrying amount. If we determine that the fair value of the reporting unit exceeds the aggregate carrying amount, no impairment charge is recorded. Otherwise, we record an impairment charge to the extent the carrying amount of the goodwill exceeds the amount that would be allocated to goodwill if the reporting unit were acquired for estimated fair value.

We evaluate the “Shurgard” trade name for impairment at least annually and whenever relevant events, circumstances and other related factors indicate that the fair value is less than the carrying amount. When we conclude that it is likely that the asset is not impaired, we do not record an impairment charge and no further analysis is performed. Otherwise, we record an impairment charge to the extent the carrying amount exceeds the asset’s estimated fair value.

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

#### Revenue and Expense Recognition

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

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

#### Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related balance sheet amounts are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. When financial instruments denominated in a currency other than the U.S. Dollar are expected to be settled in cash in the foreseeable future, the impact of changes in the U.S. Dollar equivalent are reflected in current earnings. The Euro was translated at exchange rates of approximately 1.124 U.S. Dollars per Euro at September 30, 2015 (1.216 at



December 31, 2014), and average exchange rates of 1.112 and 1.326 for the three months ended September 30, 2015 and 2014, respectively, and average exchange rates of 1.115 and 1.356 for the nine months ended September 30, 2015 and 2014, 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).

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

Comprehensive Income

Total comprehensive income 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 Shurgard Europe.

Recent Accounting Pronouncements and Guidance

In May 2014, the FASB issued ASU No. 2014-09, which requires revenue to be based upon the consideration expected from customers for promised goods or services. The new standard, effective on January 1, 2018, permits either the retrospective or cumulative effects transition method and allows for early adoption on January 1, 2017. We do not believe this standard will have a material impact on our results of operations or financial condition.

In February 2015, the FASB issued ASU No. 2015-02, which modifies i) the criteria for and the analysis of the identification of consolidation of variable interest entities, particularly when fee arrangements and related party relationships are involved, and ii) the consolidation analysis for partnerships. The standard is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early adoption permitted. We have not yet determined whether this standard will have a material effect on our results of operations or financial condition.

Net Income per Common Share

Net income is allocated to (i) noncontrolling interests based upon their share of the net income of the Subsidiaries, (ii) preferred shareholders, to the extent redemption cost exceeds the related original net issuance proceeds (in accordance with the provisions of Codification Section 260-10-S99-2, an "EITF D-42 allocation"), and (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 is computed using the weighted average common shares outstanding. Diluted net income per share is computed using the weighted average common shares outstanding, adjusted for the impact, if dilutive, of stock options outstanding (Note 10).

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

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(Unaudited)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2015	2014	2015
	(Amounts in thousands)			
Net income allocable to common shareholders	\$ 273,508	\$ 231,815	\$ 750,047	\$ 624,219
Weighted average common shares and equivalents outstanding:				
Basic weighted average common shares outstanding	172,771	172,378	172,641	172,190
Net effect of dilutive stock options - based on treasury stock method	758	926	787	908
Diluted weighted average common shares outstanding	173,529	173,304	173,428	173,098

## 3.Real Estate Facilities

Activity in real estate facilities during the nine months ended September 30, 2015 is as follows:

	Nine Months Ended September 30, 2015 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	\$ 12,863,235

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Capital expenditures to maintain real estate facilities	52,875
Acquisitions	107,872
Dispositions	(19,970)
Newly developed facilities opened for operation	89,794
Impact of foreign exchange rate changes	(943)
Ending balance	13,092,863
Accumulated depreciation:	
Beginning balance	(4,482,520)
Depreciation expense	(293,722)
Dispositions	8,886
Impact of foreign exchange rate changes	252
Ending balance	(4,767,104)
Construction in process:	
Beginning balance	104,573
Current development	159,843
Newly developed facilities opened for operation	(89,794)
Ending balance	174,622
Total real estate facilities at September 30, 2015	\$ 8,500,381

During the nine months ended September 30, 2015, we acquired ten self-storage facilities (738,000 net rentable square feet) and the leasehold interest in the land of one of our existing self-storage facilities, for a total cost of \$113.5 million, consisting of \$104.9 million in cash and the assumption of \$8.6 million in mortgage

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debt. Approximately \$5.7 million of the total cost was allocated to intangible assets. We completed expansion and development activities during the nine months ended September 30, 2015, adding 897,000 net rentable square feet of self-storage space, at an aggregate cost of \$89.8 million. Construction in process at September 30, 2015 consists of projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 4.0 million net rentable square feet of storage space, for an aggregate estimated cost of approximately \$506.6 million. During the nine months ended September 30, 2015, we sold one commercial facility and two self-storage facilities in connection with eminent domain proceedings, and recorded related gains on real estate sales totaling \$18.5 million.

## 4. Investments in Unconsolidated Real Estate Entities

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

	Investments in Unconsolidated Real Estate Entities at		Equity in Earnings of Unconsolidated Real Estate Entities for the	
	September 30, 2015	December 31, 2014	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
PSB	\$ 414,707	\$ 412,115	\$ 10,323	\$ 25,734
Shurgard Europe	385,027	394,842	\$ 5,513	\$ 15,165
Other Investments	6,470	6,783		
Total	\$ 806,204	\$ 813,740		

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Shurgard Europe	1,616	8,363	8,707	26,626
Other Investments	664	690	1,826	1,514
Total	\$ 12,603	\$ 14,566	\$ 36,267	\$ 43,305

During the nine months ended September 30, 2015 and 2014, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$26.1 million and \$35.5 million, respectively. At September 30, 2015, the cost of our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately \$56 million (\$68 million at December 31, 2014). This differential is being amortized as a reduction in equity in earnings of the Unconsolidated Real Estate Entities based upon allocations to the underlying net assets. Such amortization was approximately \$2.8 million and \$1.4 million during the nine months ended September 30, 2015 and 2014, respectively.

#### Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 42% common equity interest in PSB as of September 30, 2015 and December 31, 2014, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units ("LP Units") in an operating partnership controlled by PSB. The LP Units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at September 30, 2015 (\$79.38 per share of PSB common stock), the shares and units we owned had a market value of approximately \$1.1 billion.

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Included in equity in earnings of unconsolidated real estate entities is our \$5.3 million and \$10.4 million share of gains on sale of facilities recorded by PSB for the three and nine months ended September 30, 2015, respectively. During the three and nine months ended September 30, 2015, our equity in earnings of unconsolidated real estate entities was decreased by \$1.0 million, representing our share of PSB's EITF D-42 allocations of income associated with the redemption of preferred securities.

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

	September 30, 2015	December 31, 2014
(Amounts in thousands)		
Total assets (primarily real estate)	\$ 2,264,537	\$ 2,227,114
Debt	250,000	250,000
Preferred stock called for redemption	75,000	-
Other liabilities	80,662	68,905
Equity:		
Preferred stock	920,000	995,000
Common equity and LP units	938,875	913,209

	2015	2014
(Amounts in thousands)		
For the nine months ended September 30,		
Total revenue	\$ 278,995	\$ 285,429
Costs of operations	(92,251)	(98,081)
Depreciation and amortization	(79,243)	(83,547)
General and administrative	(10,172)	(8,928)
Other items	(9,623)	(9,944)
Gain on sale of facilities	28,235	-
Net income	115,941	84,929

Allocations to preferred shareholders and restricted share unitholders	(48,090)	(45,465)
Net income allocated to common shareholders and LP Unitholders	\$ 67,851	\$ 39,464

#### Investment in Shurgard Europe

For all periods presented, we had a 49% equity investment in Shurgard Europe and our joint venture partner owns the remaining 51% interest. In addition, Shurgard Europe pays a license fee to us for the use of the “Shurgard” trademark and paid us interest on a shareholder loan until it was repaid in July 2014 (see Note 5).

Changes in foreign currency exchange rates caused our investment in Shurgard Europe to decrease by approximately \$17.7 million and \$26.4 million during the nine months ended September 30, 2015 and 2014, respectively.



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

	September 30, 2015	December 31, 2014
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	\$ 1,509,060	\$ 1,404,246
Total debt to third parties	682,903	500,767
Other liabilities	113,852	180,546
Equity	712,305	722,933
Exchange rate of Euro to U.S. Dollar	1.124	1.216

	2015	2014
	(Amounts in thousands)	
For the nine months ended September 30,		
Self-storage and ancillary revenues	\$ 175,095	\$ 193,079
Self-storage and ancillary cost of operations	(67,746)	(76,583)
Depreciation and amortization	(49,518)	(47,367)
General and administrative	(18,069)	(10,389)
Interest expense on third party debt	(11,825)	(5,702)
Trademark license fee payable to Public Storage	(1,755)	(1,933)
Interest expense on shareholder loan	-	(21,761)
Costs of acquiring facilities and other, net	(10,168)	1,301
Net income	\$ 16,014	\$ 30,645
Average exchange rates of Euro to the U.S. Dollar	1.115	1.356

As reflected in the table above, Shurgard Europe's net income has been reduced by expenses it pays to its shareholders, including a trademark license fee and interest expense on the shareholder loan for periods in which the loan was

outstanding. During the nine months ended September 30, 2015, Shurgard Europe incurred \$9.9 million in acquisition costs associated with the acquisition of real estate facilities, which is included in “Other” in the table above. The following table set forth the calculation of our equity in earnings in Shurgard Europe:

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	2015	2014
	(Amounts in thousands)	
For the nine months ended September 30,		
Calculation of equity in earnings of Shurgard Europe:		
Our 49% share of Shurgard Europe's net income	\$ 7,847	\$ 15,016
Adjustments:		
49% of trademark license fees	860	947
49% of interest on shareholder loan	-	10,663
Total equity in earnings of Shurgard Europe	\$ 8,707	\$ 26,626

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

#### 5. Loan Receivable from Unconsolidated Real Estate Entity

At December 31, 2013, we owned 100% of the shareholder loan due from Shurgard Europe, which had a balance of €311.0 million (\$428.1 million) and bore interest at 9.0% per annum. On January 28, 2014, our joint venture partner in Shurgard Europe acquired a 51% interest in the loan at face value for €158.6 million (\$216.2 million) in cash. In July 2014, Shurgard Europe fully repaid its €311.0 million shareholder loan, and accordingly, we received our 49% share of the loan totaling €152.4 million (\$204.9 million).

For the three and nine months ended September 30, 2014, we recorded interest income with respect to this loan of nil and approximately \$1.5 million, respectively.

#### 6. Credit Facility, Term Loan and Notes Payable

On March 31, 2015, we entered into an amended revolving credit agreement (the “Credit Facility”), which expires on March 31, 2020. The aggregate limit with respect to borrowings and letters of credit was increased from \$300 million to \$500 million. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.850% to LIBOR plus 1.450% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.850% at September 30, 2015). In addition, we are required to pay a quarterly facility fee ranging from 0.080% per annum to 0.250% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.080% per annum at September 30, 2015). At December 31, 2014, September 30, 2015 and November 4, 2015, we had no outstanding borrowings under this Credit Facility. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$14.9 million at September 30, 2015 and \$13.9 million at December 31, 2014. The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at September 30, 2015.

On December 2, 2013, we borrowed \$700 million from Wells Fargo under an unsecured term loan (the “Term Loan”), and we fully repaid the borrowings by September 30, 2014. We incurred origination costs of \$1.9 million, which were amortized using the effective interest method through the date of extinguishment (\$0.4 million and \$1.8 million for the three and nine months ended September 30, 2014, respectively).

The carrying amounts of our notes payable at September 30, 2015 and December 31, 2014, totaled \$55.7 million and \$64.4 million, respectively, with unamortized premium totaling \$0.3 million and \$0.6 million, respectively. These notes were assumed in connection with acquisitions of real estate facilities and recorded at

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fair value with any premium or discount to the stated note balance amortized using the effective interest method. At September 30, 2015, the notes are secured by 32 real estate facilities with a net book value of approximately \$151 million, have contractual interest rates between 2.9% and 7.1%, and mature between June 2016 and September 2028.

During the nine months ended September 30, 2015, we assumed mortgage debt with an estimated fair value of \$8.6 million and market rate of 4.3% (contractual balance of \$8.4 million and contractual interest rate of 6.2%) in connection with the acquisition of two real estate facilities. At September 30, 2015, approximate principal maturities of our notes payable are \$0.6 million in the remainder of 2015, \$29.0 million in 2016, \$9.2 million in 2017, \$11.1 million in 2018, \$1.2 million in 2019 and \$4.6 million thereafter. The weighted average effective interest rate of our notes payable at September 30, 2015 was 4.1%.

Cash paid for interest totaled \$2.3 million and \$8.0 million for the nine months ended September 30, 2015 and 2014, respectively. Interest capitalized as real estate totaled \$1.8 million and \$0.8 million for the nine months ended September 30, 2015 and 2014, respectively.

See “Subsequent Events” in Note 13 below for additional information regarding our debt.

#### 7. Noncontrolling Interests

At September 30, 2015, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 13 operating self-storage facilities and seven self-storage facilities that are under construction and (ii) 231,978 partnership units held by third-parties 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 (collectively, the “Noncontrolling Interests”). At September 30, 2015, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the subsidiary. During the nine months ended September 30, 2015 and 2014, we allocated a total of \$4.7 million and \$4.0 million of income, respectively, to these interests and we paid \$5.5 million and \$5.2 million in distributions, respectively, to these interests.

During the nine months ended September 30, 2015, we acquired noncontrolling interests for \$5.4 million in cash, substantially all of which was allocated to paid-in capital. Also during the nine months ended September 30, 2015, noncontrolling interests contributed \$1.0 million.

#### 8. Shareholders' Equity

##### Preferred Shares

At September 30, 2015 and December 31, 2014, we had the following series of Cumulative Preferred Shares (“Preferred Shares”) outstanding:

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Series	Earliest Redemption Date	Dividend Rate	At September 30, 2015		At December 31, 2014	
			Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
(Dollar amounts in thousands)						
Series O	4/15/2015	6.875%	-	\$ -	5,800	\$ 145,000
Series P	10/7/2015	6.500%	-	-	5,000	125,000
Series Q	4/14/2016	6.500%	15,000	375,000	15,000	375,000
Series R	7/26/2016	6.350%	19,500	487,500	19,500	487,500
Series S	1/12/2017	5.900%	18,400	460,000	18,400	460,000
Series T	3/13/2017	5.750%	18,500	462,500	18,500	462,500
Series U	6/15/2017	5.625%	11,500	287,500	11,500	287,500
Series V	9/20/2017	5.375%	19,800	495,000	19,800	495,000
Series W	1/16/2018	5.200%	20,000	500,000	20,000	500,000
Series X	3/13/2018	5.200%	9,000	225,000	9,000	225,000
Series Y	3/17/2019	6.375%	11,400	285,000	11,400	285,000
Series Z	6/4/2019	6.000%	11,500	287,500	11,500	287,500
Series A	12/2/2019	5.875%	7,600	190,000	7,600	190,000
Total Preferred Shares			162,200	\$ 4,055,000	173,000	\$ 4,325,000

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 (the "Board") until the arrearage has been cured. At September 30, 2015, there were no dividends in arrears.

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

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

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During the nine months ended September 30, 2014, we issued an aggregate 22.9 million depositary shares, each representing 1/1,000 of a share of our Series Y and Series Z Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$572.5 million in gross proceeds, and we incurred \$17.4 million in issuance costs.

During the nine months ended September 30, 2015, we called our Series O and Series P Preferred Shares for redemption at par. The aggregate redemption amount, before payment of accrued dividends, was

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\$270.0 million, of which \$125.0 million, for our Series P Preferred Shares was paid on October 8, 2015. We recorded \$4.1 million and \$8.9 million in EITF D-42 allocation of income from our common shareholders to the holders of our Preferred Shares in the three and nine months ended September 30, 2015, respectively, in connection with these redemptions.

Common share dividends, including amounts paid to our restricted share unitholders, totaled \$294.6 million (\$1.70 per share) and \$242.0 million (\$1.40 per share) for the three months ended September 30, 2015 and 2014, respectively, and \$831.3 million (\$4.80 per share) and \$725.7 million (\$4.20 per share), for the nine months ended September 30, 2015 and 2014, respectively. Preferred share dividends totaled \$61.1 million and \$60.8 million for the three months ended September 30, 2015 and 2014, respectively, and \$186.1 million and \$170.9 million, for the nine months ended September 30, 2015 and 2014, respectively.

#### 9.Related Party Transactions

The Hughes Family owns approximately 14.4% of our common shares outstanding at September 30, 2015.

The Hughes Family has ownership interests in, and operates, approximately 54 self-storage facilities in Canada (“PS Canada”) using the “Public Storage” brand name pursuant to a non-exclusive, royalty-free trademark license agreement with the Company. We currently do not own any interests in these facilities. We have a right of first refusal to acquire the stock or assets of the corporation that manages the 54 self-storage facilities in Canada, if the Hughes Family or the corporation agrees to sell them. We reinsure risks relating to loss of goods stored by customers in these facilities. During each of the nine month periods ended September 30, 2015 and 2014, we received \$0.4 million in reinsurance premiums attributed to these facilities. There is no assurance that these premiums will continue, as our rights to reinsure these risks could be withdrawn at any time.

#### 10.Share-Based Compensation

Under various share-based compensation plans and under terms established by a committee of our Board, 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, 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

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estimate the fair value of our stock options.

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

For the three and nine months ended September 30, 2015, we recorded \$0.9 million and \$2.4 million, respectively, in compensation expense related to stock options, as compared to \$0.8 million and \$2.1 million for the same periods in 2014.

During the nine months ended September 30, 2015, 285,000 stock options were granted, 310,745 options were exercised and 115,000 options were forfeited. A total of 1,944,799 stock options were outstanding at September 30, 2015 (2,085,544 at December 31, 2014).

#### 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 nine months ended September 30, 2015, 146,280 RSUs were granted, 58,180 RSUs were forfeited and 166,331 RSUs vested. This vesting resulted in the issuance of 97,401 common shares. In addition, tax deposits totaling \$13.7 million were made on behalf of employees in exchange for 68,930 common shares withheld upon vesting.

RSUs outstanding at September 30, 2015 and December 31, 2014 were 672,817 and 751,048, respectively. A total of \$9.0 million and \$22.0 million in RSU expense was recorded for the three and nine months ended September 30, 2015, respectively, which includes approximately \$0.1 million and \$1.0 million, respectively, in employer taxes incurred upon vesting, as compared to \$8.0 million and \$20.0 million for the same periods in 2014, which includes approximately \$0.1 million and \$1.1 million, respectively, in employer taxes incurred upon vesting.

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

#### 11. Segment Information

Our reportable segments reflect the significant components of our operations where discreet financial information is evaluated separately by our chief operating decision maker (“CODM”). We organize our segments based primarily upon the nature of the underlying products and services, as well as the drivers of profitability growth. The net income for each reportable segment included in the tables below are in conformity with GAAP and our significant accounting policies as denoted in Note 2. The amounts not attributable to reportable segments are aggregated under “other items not allocated to segments.”

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We have adjusted the classification of the “Presentation of Segment Information” below with respect to prior periods to be consistent with our current reportable segment definition, as described more fully in Note 2. Following is a description of and basis for presentation for each of our reportable segments.

Self-Storage Operations

The Self-Storage Operations segment reflects the rental operations from all self-storage facilities owned by the Company and the Subsidiaries. Our CODM reviews the net operating income (“NOI”) of this segment, which represents the related revenues less cost of operations (prior to depreciation expense), in assessing performance and making resource allocation decisions. The presentation in the tables below sets forth the NOI of this segment, as well as the depreciation expense for this segment, which while reviewed by our CODM and included in net income, is not considered by the CODM in assessing performance and decision making. 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 Self-Storage Operations segment.

Ancillary Operations

The Ancillary Operations segment reflects the sale of merchandise and reinsurance of policies against losses to goods stored by our self-storage tenants, activities which are incidental to our primary self-storage rental activities. Our CODM reviews the NOI of these operations in assessing performance and making resource allocation decisions.

Investment in PSB

This segment represents our 42% equity interest in PSB, a publicly-traded REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial space. PSB has a separate management team that makes its financing, capital allocation, and other significant decisions. In making resource allocation decisions with respect to our investment in PSB, the CODM reviews PSB’s net income, which is detailed in PSB’s periodic filings with the United States Securities and Exchange Commission (“SEC”), and as included in Note 4. The segment presentation in the tables below includes our equity earnings from PSB.

Investment in Shurgard Europe

This segment represents our 49% equity interest in Shurgard Europe, which owns and operates self-storage facilities located in seven countries in Western Europe. Shurgard Europe has a separate management team reporting to our CODM and our joint venture partner. In making resource allocation decisions with respect to our investment in Shurgard Europe, the CODM reviews Shurgard Europe’s net income, which is detailed in Note 4. The segment presentation below includes our equity earnings from Shurgard Europe.

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## Presentation of Segment Information

The following tables reconcile NOI (as applicable) and net income of each segment to our consolidated net income (amounts in thousands):

Three months ended September 30, 2015

	Self-Storage Operations	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
(Amounts in thousands)						
Revenues						
Self-storage operations	\$ 580,976	\$ -	\$ -	\$ -	\$ -	\$ 580,976
Ancillary operations	-	37,896	-	-	-	37,896
	580,976	37,896	-	-	-	618,872
Cost of operations:						
Self-storage operations	152,010	-	-	-	-	152,010
Ancillary operations	-	12,676	-	-	-	12,676
	152,010	12,676	-	-	-	164,686
Net operating income						
Self-storage operations	428,966	-	-	-	-	428,966
Ancillary operations	-	25,220	-	-	-	25,220
	428,966	25,220	-	-	-	454,186
Other components of net income (loss):						
Depreciation and amortization	(106,082)	-	-	-	-	(106,082)
General and administrative	-	-	-	-	(23,573)	(23,573)
Interest and other income	-	-	-	-	3,659	3,659
Equity in earnings of	-	-	10,323	1,616	664	12,603

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unconsolidated real estate  
entities

Gain on real estate sales	-	-	-	-	343	343
Net income (loss)	\$ 322,884	\$ 25,220	\$ 10,323	\$ 1,616	\$ (18,907)	\$ 341,136

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(Unaudited)

Three months ended September 30, 2014

	Self-Storage Operations	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
(Amounts in thousands)						
Revenues						
Self-storage operations	\$ 534,271	\$ -	\$ -	\$ -	\$ -	\$ 534,271
Ancillary operations	-	32,819	-	-	-	32,819
	534,271	32,819	-	-	-	567,090
Cost of operations:						
Self-storage operations	146,979	-	-	-	-	146,979
Ancillary operations	-	11,589	-	-	-	11,589
	146,979	11,589	-	-	-	158,568
Net operating income						
Self-storage operations	387,292	-	-	-	-	387,292
Ancillary operations	-	21,230	-	-	-	21,230
	387,292	21,230	-	-	-	408,522
Other components of net income (loss):						
Depreciation and amortization	(111,077)	-	-	-	-	(111,077)
General and administrative	-	-	-	-	(17,874)	(17,874)
Interest and other income	-	-	-	-	3,830	3,830
Interest expense	-	-	-	-	(1,238)	(1,238)
Equity in earnings of unconsolidated real estate entities	-	-	5,513	8,363	690	14,566
Foreign currency exchange loss	-	-	-	-	(3,012)	(3,012)
Gain on real estate sales	-	-	-	-	1,260	1,260
Net income (loss)	\$ 276,215	\$ 21,230	\$ 5,513	\$ 8,363	\$ (16,344)	\$ 294,977





## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

Nine months ended September 30, 2015

	Self-Storage Operations	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
(Amounts in thousands)						
Revenues						
Self-storage operations	\$ 1,662,641	\$ -	\$ -	\$ -	\$ -	\$ 1,662,641
Ancillary operations	-	109,725	-	-	-	109,725
	1,662,641	109,725	-	-	-	1,772,366
Cost of operations:						
Self-storage operations	461,078	-	-	-	-	461,078
Ancillary operations	-	36,715	-	-	-	36,715
	461,078	36,715	-	-	-	497,793
Net operating income						
Self-storage operations	1,201,563	-	-	-	-	1,201,563
Ancillary operations	-	73,010	-	-	-	73,010
	1,201,563	73,010	-	-	-	1,274,573
Other components of net income (loss):						
Depreciation and amortization	(319,701)	-	-	-	-	(319,701)
General and administrative	-	-	-	-	(68,721)	(68,721)
Interest and other income	-	-	-	-	11,509	11,509
Equity in earnings of unconsolidated real estate entities	-	-	25,734	8,707	1,826	36,267
Gain on real estate sales	-	-	-	-	18,503	18,503
Net income (loss)	\$ 881,862	\$ 73,010	\$ 25,734	\$ 8,707	\$ (36,883)	\$ 952,430



## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

Nine months ended September 30, 2014

	Self-Storage Operations	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
(Amounts in thousands)						
Revenues						
Self-storage operations	\$ 1,520,661	\$ -	\$ -	\$ -	\$ -	\$ 1,520,661
Ancillary operations	-	94,954	-	-	-	94,954
	1,520,661	94,954	-	-	-	1,615,615
Cost of operations:						
Self-storage operations	445,474	-	-	-	-	445,474
Ancillary operations	-	35,473	-	-	-	35,473
	445,474	35,473	-	-	-	480,947
Net operating income						
Self-storage operations	1,075,187	-	-	-	-	1,075,187
Ancillary operations	-	59,481	-	-	-	59,481
	1,075,187	59,481	-	-	-	1,134,668
Other components of net income (loss):						
Depreciation and amortization	(326,541)	-	-	-	-	(326,541)
General and administrative	-	-	-	-	(52,240)	(52,240)
Interest and other income	-	-	-	-	13,674	13,674
Interest expense	-	-	-	-	(6,781)	(6,781)
Equity in earnings of						
unconsolidated real estate entities	-	-	15,165	26,626	1,514	43,305
Foreign currency exchange loss	-	-	-	-	(7,035)	(7,035)
Gain on real estate sales	-	-	-	-	2,479	2,479
Net income (loss)	\$ 748,646	\$ 59,481	\$ 15,165	\$ 26,626	\$ (48,389)	\$ 801,529



PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

12. Commitments and Contingencies

Contingent Losses

We are a party to various legal proceedings and subject to various claims and complaints; however, we believe that the likelihood of these contingencies resulting in a material loss to the Company, either individually or in the aggregate, is remote.

Insurance and Loss Exposure

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

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers tenant claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage unit. We reinsure all risks in this program. We are subject to licensing requirements and regulations in several states. At September 30, 2015, there were approximately 880,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.5 billion.

13. Subsequent Events

On November 3, 2015, we issued €242.0 million of Euro-denominated unsecured Senior Notes, bearing interest at a fixed rate of 2.175% and maturing in ten years.

Subsequent to September 30, 2015, we acquired or were under contract to acquire (subject to customary closing conditions) eleven self-storage facilities (eight in Florida, two in Texas and one in California) with 0.8 million net rentable square feet for \$107.7 million.



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

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

Forward Looking Statements

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

These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause our actual results and performance to be materially different from those expressed or implied in the forward-looking statements. Factors and risks that may impact our future results and performance include, but are not limited to, those described in Part I, Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 25, 2015 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 tax, real estate and zoning laws and regulations;
- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our customers;
- the impact of competition from new and existing self-storage and commercial facilities and other storage alternatives;
- difficulties in our ability to successfully evaluate, finance, integrate into our existing operations, and manage acquired and developed facilities;
- risks associated with our unhedged expected issuance of Euro-denominated debt;
- risks related to our development of new facilities and/or participation in joint ventures;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations and local and global economic uncertainty that could adversely affect our earnings and cash flows;
- risks of ongoing litigation and other legal and regulatory actions, which may divert management's time and attention, require us to pay damages and expenses or restrict the operation of our business;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing the environment, taxes and our tenant reinsurance business and real estate investment trusts ("REITs"), and risks related to the impact of new laws and regulations;
- risk of increased tax expense associated either with a possible failure by us to qualify as a REIT, or with challenges to intercompany transactions with our taxable REIT subsidiaries;



- changes in federal or state tax laws related to the taxation of REITs, which could impact our status as a REIT;
- security breaches or a failure of our networks, systems or technology could adversely impact our business, customer and employee relationships;
- risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;
- difficulties in raising capital at a reasonable cost; and
- economic uncertainty due to the impact of terrorism or war.

These forward looking statements speak only as of the date of this report or as of the dates indicated in the statements. All of our forward-looking statements, including those in this report, are qualified in their entirety by this statement. We expressly disclaim any obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, new estimates, or other factors, events or circumstances after the date of these forward looking statements, except as required by law. Given these risks and uncertainties, you should not rely on any forward-looking statements in this report, or which management may make orally or in writing from time to time, as predictions of future events nor guarantees of future performance.

### Critical Accounting Policies

Our MD&A discusses our financial statements, which have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”). Our financial statements are affected by our judgments, assumptions and estimates. The notes to our September 30, 2015 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 REIT, as defined in the Internal Revenue Code of 1986, as amended (the “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 not be reasonable when compared to similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess payments. Such a penalty tax could have a material adverse impact on our net income.

**Impairment of Long-Lived Assets:** The analysis of impairment of our long-lived assets involves identification of indicators of impairment, projections of future operating cash flows, and estimates of fair values, all of which require significant judgment and subjectivity. Others could come to materially different conclusions. In



addition, we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in conclusions, could have a material adverse impact on our net income.

**Accrual for Uncertain and Contingent Liabilities:** We accrue for certain contingent and other liabilities that have significant uncertain elements, such as property taxes, workers compensation claims, tenant reinsurance claims, as well as other legal claims and disputes involving customers, employees, governmental agencies and other third parties. Such liabilities we are aware of are estimated based upon many factors such as assumptions of past and future trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be misstated.

**Accounting for acquired real estate facilities:** We estimate the fair values of the land, buildings and intangible assets acquired for purposes of allocating the purchase price. Such estimates are based upon many assumptions and judgments, including (i) market rates of return and capitalization rates on real estate and intangible assets, (ii) building and material cost levels, (iii) comparisons of the acquired underlying land parcels to recent land transactions, and (iv) future cash flows from the real estate and the existing tenant base. Others could come to materially different conclusions as to the estimated fair values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, and real estate and intangible assets.

#### MD&A Overview

Our self-storage operations generated most of our net income for all periods presented. Accordingly, a significant portion of management's time is devoted to maximizing cash flows from our existing self-storage facilities, as well as seeking additional investments in self-storage facilities.

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

During 2014, we acquired 44 facilities for approximately \$431 million, primarily through large portfolio acquisitions. During the nine months ended September 30, 2015, we acquired ten self-storage facilities for \$97.9 million. Subsequent to September 30, 2015, we acquired or were under contract to acquire (subject to customary closing conditions) eleven self-storage facilities (eight in Florida, two in Texas and one in California) with 0.8 million net rentable square feet for \$107.7 million. We will continue to seek to acquire facilities; however, there is significant competition to acquire existing facilities and there can be no assurance as to the number of facilities we may acquire.

Since the beginning of 2013, we opened development and expansion projects with a total cost of \$273 million, adding approximately 2.7 million net rentable square feet. As of September 30, 2015, we had additional projects which will add approximately 4.0 million net rentable square feet of storage space at a total cost of approximately \$507 million. A total of \$175 million in costs were incurred through September 30, 2015 with respect to these projects, with the remaining costs expected to be incurred primarily in the next 18 months. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding available sites that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We believe that our real estate development activities are beneficial to our business operations over the long run. However, in the short run, due to the three to four year period that it takes to fill up newly developed storage space and achieve a stabilized level of cash flows, our earnings are diluted because earnings from those newly developed

and expanded facilities are less than the cost of the capital required in order to fund the development cost. We believe that this dilution will grow in the remainder of 2015 and beyond due to the increasing level of development and unstabilized properties in our portfolio.

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We also have equity investments in Shurgard Europe and PS Business Parks, Inc. (“PSB”). We may make further investments in these companies.

As of September 30, 2015, we have capital resources in excess of \$1 billion and planned capital needs over the next year totaling \$577 million. Our capital resources are comprised of \$485 million of available borrowing capacity on our line of credit, \$260 million of expected retained operating cash flow for the next twelve months and \$264 million of net proceeds from a debt issuance on November 3, 2015. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain real estate facilities. Our planned capital needs consist of \$332 million of remaining spend on our development pipeline, \$125 million for the redemption of our Series P Preferred Shares on October 8, 2015, \$108 million in property acquisitions, and \$12 million in debt repayment. We expect that our planned capital needs will continue to grow as we continue to seek additional development and acquisition opportunities. We believe that we have access to additional debt or equity capital if needed to fund such future commitments.

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

## Results of Operations

### Operating results for the Three and Nine Months Ended September 30, 2015 and 2014

For the three months ended September 30, 2015, net income allocable to our common shareholders was \$273.5 million or \$1.58 per diluted common share, compared to \$231.8 million or \$1.34 per diluted common share for the same period in 2014, representing an increase of \$41.7 million or \$0.24 per diluted common share. The increase is primarily due to a \$41.6 million increase in self-storage net operating income, as a result of a \$29.5 million increase for our Same Store Facilities (defined below) and a \$12.1 million increase for our Non Same Store Facilities (defined below).

For the nine months ended September 30, 2015, net income allocable to our common shareholders was \$750.0 million or \$4.32 per diluted common share, compared to \$624.2 million or \$3.61 per diluted common share for the same period in 2014, representing an increase of \$125.8 million or \$0.71 per diluted common share. The increase is primarily due to a \$126.4 million increase in self-storage net operating income, as a result of a \$84.6 million increase for our Same Store Facilities and a \$41.8 million increase for our Non Same Store Facilities.

Funds from Operations (“FFO”) and FFO per share are non-GAAP measures defined by the National Association of Real Estate Investment Trusts and are considered helpful measures of REIT performance by REITs and many REIT analysts. FFO represents net income before real estate depreciation, gains and losses, and impairment charges, which are excluded because they are based upon historical real estate costs and assume that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. FFO and FFO per share are not a substitute for net income or earnings per share. FFO is not a substitute for GAAP net cash flow in evaluating our liquidity or ability to pay dividends, because it excludes financing activities presented on our statements of cash flows. In addition, other REITs may compute these measures differently, so comparisons among REITs may not be helpful.

For the three months ended September 30, 2015, FFO was \$2.27 per diluted common share, as compared to \$2.08 for the same period in 2014, representing an increase of 9.1%, or \$0.19 per diluted common share.

For the nine months ended September 30, 2015, FFO was \$6.33 per diluted common share, as compared to \$5.81 for the same period in 2014, representing an increase of 9.0%, or \$0.52 per diluted common share.

The following tables reconcile diluted earnings per share to FFO per share and set forth the computation of FFO per share:

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014

(Amounts in thousands, except per share data)

## Reconciliation of Diluted Earnings per Share to FFO per Share:

Diluted Earnings per Share	\$ 1.58	\$ 1.34	\$ 4.32	\$ 3.61
Eliminate amounts per share excluded from FFO: from FFO:				
Depreciation and amortization, including amounts from investments and excluding amounts allocated to noncontrolling interests and restricted share unitholders	0.73	0.75	2.17	2.22
Gains on sale of real estate investments, including our equity share from investments, and other	(0.04)	(0.01)	(0.16)	(0.02)
FFO per share	\$ 2.27	\$ 2.08	\$ 6.33	\$ 5.81

## Computation of FFO per Share:

Net income allocable to common shareholders	\$ 273,508	\$ 231,815	\$ 750,047	\$ 624,219
Eliminate items excluded from FFO:				
Depreciation and amortization	106,082	111,077	319,701	326,541
Depreciation from unconsolidated real estate investments	21,276	19,688	59,092	60,421
Depreciation allocated to noncontrolling interests and restricted share unitholders	(877)	(891)	(2,632)	(2,830)
Gains on sale of real estate investments, including our equity share from investments, and other	(5,730)	(1,440)	(28,833)	(2,732)
FFO allocable to common shares	\$ 394,259	\$ 360,249	\$ 1,097,375	\$ 1,005,619
Diluted weighted average common shares	173,529	173,304	173,428	173,098
FFO per share	\$ 2.27	\$ 2.08	\$ 6.33	\$ 5.81

We also present "Core FFO per share," a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange gains and losses, (ii) EITF D-42 charges related to the redemption of preferred securities, (iii) property acquisition costs incurred and (iv) certain other items. We believe Core FFO per share is a helpful measure used by investors and REIT analysts to understand our performance. However, Core FFO per share is not a substitute for net income per share. Because other REITs may not compute Core FFO per share in the same manner as we do, may not use the same terminology, or may not present such a measure, Core FFO per share may not be comparable among REITs.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
FFO per share	\$ 2.27	\$ 2.08	9.1%	\$ 6.33	\$ 5.81	9.0%
Eliminate the per share impact of items excluded from Core FFO:						
Foreign currency exchange loss	-	0.02		-	0.04	
Application of EITF D-42	0.03	-		0.06	-	
Property acquisition costs	0.01	0.01		0.03	0.02	
Other items	0.02	-		0.02	0.01	
Core FFO per share	\$ 2.33	\$ 2.11	10.4%	\$ 6.44	\$ 5.88	9.5%

#### Analysis of Net Income by Reportable Segment

Our MD&A is presented and organized in accordance with Note 11 to our September 30, 2015 financial statements, "Segment Information." Accordingly, refer to the tables presented in Note 11 in order to reconcile such amounts to our total net income and for further information on our reportable segments.

#### Self-Storage Operations

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, 2013 (the "Same Store Facilities"), and (ii) all other facilities, which are newly acquired, newly developed, or recently expanded (the "Non Same Store Facilities"). See Note 11 to our September 30, 2015 financial statements "Segment Information," for a reconciliation of the amounts in the tables below to our total net income.



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Self-Storage Operations

Summary	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change

(Dollar amounts in thousands)

Revenues:

Same Store Facilities	\$ 511,842	\$ 479,889	6.7%	\$ 1,469,840	\$ 1,379,940	6.5%
Non Same Store Facilities	69,134	54,382	27.1%	192,801	140,721	37.0%
	580,976	534,271	8.7%	1,662,641	1,520,661	9.3%

Cost of operations:

Same Store Facilities	132,124	129,709	1.9%	403,194	397,855	1.3%
Non Same Store Facilities	19,886	17,270	15.1%	57,884	47,619	21.6%
	152,010	146,979	3.4%	461,078	445,474	3.5%

Net operating income (a):

Same Store Facilities	379,718	350,180	8.4%	1,066,646	982,085	8.6%
Non Same Store Facilities	49,248	37,112	32.7%	134,917	93,102	44.9%
Total net operating income	428,966	387,292	10.8%	1,201,563	1,075,187	11.8%

Depreciation and amortization expense:

Same Store Facilities	(82,237)	(83,888)	(2.0)%	(244,804)	(246,765)	(0.8)%
Non Same Store Facilities	(23,845)	(27,189)	(12.3)%	(74,897)	(79,776)	(6.1)%
Total depreciation and amortization expense	(106,082)	(111,077)	(4.5)%	(319,701)	(326,541)	(2.1)%

Net income:

Same Store Facilities	297,481	266,292	11.7%	821,842	735,320	11.8%
Non Same Store Facilities	25,403	9,923	156.0%	60,020	13,326	350.4%
Total net income	\$ 322,884	\$ 276,215	16.9%	\$ 881,862	\$ 748,646	17.8%

Number of facilities at period end:

Same Store Facilities	1,990	1,990	-
Non Same Store Facilities	265	232	14.2%

Net rentable square footage at period end (in thousands):

Same Store Facilities	126,347	126,347	-
Non Same Store Facilities	20,053	16,864	18.9%

(a) We believe net operating income or "NOI" is a meaningful measure of operating performance, because we utilize NOI in making decisions with respect to capital allocations, determining current property values, evaluating property performance and in comparing period-to-period and market-to-market property operating results. In addition, we believe the investment community utilizes NOI in determining operating performance and real estate values, and does not consider depreciation expense because it is based upon historical cost. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating our operating results. See Note 11 to our September 30, 2015 financial statements for a reconciliation of NOI to our total net

income for all periods presented.

Net operating income from our self-storage operations has increased 10.8% and 11.8% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014. This increase is due to improvements in our Same Store Facilities, as well as the acquisition of new facilities and the fill-up of unstabilized facilities.

#### Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated on a stabilized basis since January 1, 2013 and therefore provide meaningful comparisons for 2014 and 2015. The following table

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summarizes the historical operating results of these 1,990 facilities (126.3 million net rentable square feet) that represent approximately 86% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at September 30, 2015.

Selected Operating Data for the Same Store Facilities (1,990 facilities)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
(Dollar amounts in thousands, except weighted average amounts)						
<b>Revenues:</b>						
Rental income	\$ 487,526	\$ 456,715	6.7%	\$ 1,401,569	\$ 1,312,928	6.8%
Late charges and administrative fees	24,316	23,174	4.9%	68,271	67,012	1.9%
Total revenues (a)	511,842	479,889	6.7%	1,469,840	1,379,940	6.5%
<b>Cost of operations:</b>						
Property taxes	49,403	46,554	6.1%	149,196	141,973	5.1%
On-site property manager payroll	25,247	24,950	1.2%	77,292	77,374	(0.1)%
Supervisory payroll	8,866	8,652	2.5%	26,861	26,342	2.0%
Repairs and maintenance	10,048	9,938	1.1%	34,983	34,271	2.1%
Utilities	10,285	10,434	(1.4)%	29,870	30,389	(1.7)%
Advertising and selling expense	6,906	7,844	(12.0)%	18,569	20,481	(9.3)%
Other direct property costs	12,913	12,952	(0.3)%	39,116	38,431	1.8%
Allocated overhead	8,456	8,385	0.8%	27,307	28,594	(4.5)%
Total cost of operations (a)	132,124	129,709	1.9%	403,194	397,855	1.3%
Net operating income	379,718	350,180	8.4%	1,066,646	982,085	8.6%
Depreciation and amortization expense	(82,237)	(83,888)	(2.0)%	(244,804)	(246,765)	(0.8)%
Net income	\$ 297,481	\$ 266,292	11.7%	\$ 821,842	\$ 735,320	11.8%
Gross margin (before depreciation and amortization)	74.2%	73.0%	1.6%	72.6%	71.2%	2.0%
<b>Weighted average for the period:</b>						
Square foot occupancy	95.3%	94.7%	0.6%	94.7%	94.0%	0.7%
<b>Realized annual rental income per (b):</b>						
Occupied square foot	\$ 16.19	\$ 15.27	6.0%	\$ 15.62	\$ 14.74	6.0%
Available square foot	\$ 15.43	\$ 14.46	6.7%	\$ 14.79	\$ 13.86	6.7%

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At September 30:

Square foot occupancy	94.2%	93.8%	0.4%
Annual contract rent per occupied square foot (c)	\$ 16.90	\$ 15.95	6.0%

(a) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities.

(b) Realized annual rent per occupied square foot is computed by dividing 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 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.

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

#### Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 6.7% in the three months ended September 30, 2015 as compared to the same period in 2014 due primarily to a 6.0% increase in realized annual rental income per occupied square foot. Revenues generated by our Same Store Facilities increased by 6.5% in the nine months ended September 30, 2015 as compared to the same period in 2014 due primarily to a 6.0% increase in realized annual rental income per occupied square foot. The increase in realized annual rental income per occupied square foot was due primarily to annual rent increases given to existing tenants and, to a lesser extent, increased move-in rental rates.

Same Store weighted average square foot occupancy increased from 94.7% in the three months ended September 30, 2014 to 95.3% in the three months ended September 30, 2015, representing an increase of 0.6%. Same Store weighted average square foot occupancy increased from 94.0% in the nine months ended September 30, 2014 to 94.7% in the nine months ended September 30, 2015, representing an increase of 0.7%. At September 30, 2015, the year-over-year occupancy gap was 0.4%. We expect the year over year occupancy gap to narrow because we believe we are reaching limitations to occupancy levels inherent with approximately 5% to 7% of our tenant base vacating each month without notice.

We believe that high occupancies help maximize our rental income. We seek to maintain a weighted average square foot occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to attract new tenants as well as adjusting our marketing efforts on both television and the Internet in order to generate sufficient move-in volume 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.

We believe rental growth in the remainder of 2015 will need to come from a combination of the following; (i) continued annual rent increases to tenants, (ii) higher rental rates charged to new tenants, (iii) lower promotional discounts and, to a lesser extent, (iv) higher occupancies. Our future rental growth will also 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 and the average length of stay of our tenants.

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. We expect rent increases to existing tenants for the remainder of 2015 to be similar to the prior year.

During the three months ended September 30, 2015 and 2014, the average annualized contractual rates per occupied square foot for tenants that moved in were \$15.29 and \$14.57, respectively, and for tenants that vacated were \$15.67 and \$14.91, respectively. During the nine months ended September 30, 2015 and 2014, the average annualized contractual rates per occupied square foot for tenants that moved in were \$14.62 and \$13.76, respectively, and for tenants that vacated were \$15.00 and \$14.31, respectively. Realized annual rental income per square foot increased in the three and nine months ended September 30, 2015 as compared to the same periods in 2014, despite vacate rental rates generally exceeding move-in rates, due primarily to rate increases to existing tenants. The percentage of new tenants receiving promotional discounts in the three and nine months ended September 30, 2015 was flat as compared to the same periods in 2014.

We believe that the current trends in move-in, move-out, in place contractual rents and occupancy levels are consistent with our expectation of continued revenue growth in the remainder of 2015. 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 Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 1.9% and 1.3% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014, due primarily to increased property tax expense.

Property tax expense increased 6.1% and 5.1% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014, due primarily to higher assessed values and tax rates. We expect property tax expense growth of approximately 5.5% in the remainder of 2015.

On-site property manager payroll expense increased 1.2% and decreased 0.1% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014. The decrease in the nine month period was due to reduced workers compensation costs, offset by higher employee health plan expenses. We expect on-site property manager payroll expense to increase modestly in the remainder of 2015 due to inflationary wage increases.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 2.5% and 2.0% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014 due primarily to higher wage rates. We expect inflationary increases in compensation rates in the remainder of 2015.

Repairs and maintenance expense increased 1.1% and 2.1% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014. Repair and maintenance costs include snow removal expense totaling \$8.4 million and \$7.2 million in the nine months ended September 30, 2015 and 2014, respectively. Excluding snow removal costs, repairs and maintenance decreased 1.5% in the nine months ended September 30, 2015 as compared to the same period in 2014.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs including snow removal, inflation in material and labor costs, and random events. We expect inflationary increases in repairs and maintenance expense in the remainder of 2015, excluding snow removal expense, which is primarily weather dependent and not predictable.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expense decreased 1.4% and 1.7% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014. It is difficult to estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable. However, based upon current trends and expectations regarding commercial electricity rates, we expect inflationary increases in rates.

Advertising and selling expense is comprised principally of Internet advertising, television advertising and the operating costs of our telephone reservation center. Advertising and selling expense varies based upon demand, occupancy levels, and other factors; television and Internet advertising, in particular, can increase or decrease significantly in the short run in response to these factors. Advertising and selling expenses decreased 12.0% and 9.3% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014. Based upon current trends in move-ins, move-outs, and occupancies, we expect advertising and selling expense to increase modestly in the remainder of 2015.

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 facilities' cash receipts, credit card fees, and the cost of operating each property's rental office including supplies and telephone data communication lines. These costs decreased 0.3% and increased 1.8% in the three and nine months ended September 30, 2015 as compared to the

same periods in 2014. The increase in the nine month period was due primarily to higher credit card fees. Credit card fees increased due to a higher proportion of collections being received from credit cards. We expect moderate increases in other direct property costs in the remainder of 2015.



Allocated overhead represents administrative expenses for shared general corporate functions, which are allocated to self-storage property operations to the extent their efforts are devoted to self-storage operations. Such functions include data processing, human resources, operational accounting and finance, marketing, and costs of senior executives (other than the Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead increased 0.8% and decreased 4.5% in the three and nine months ended September 30, 2015 as compared to the same periods in 2014. The decrease in the nine month period was due to an acceleration of the timing of our annual field staff meetings to the fourth quarter of 2014, which would normally have occurred during the first quarter of 2015. We expect inflationary growth in allocated overhead in the remainder of 2015 as compared to the same period in 2014.

#### Analysis of Same Store Depreciation and Amortization

Depreciation and amortization for Same Store Facilities decreased 2.0% and 0.8% during the three and nine months ended September 30, 2015 as compared to the same periods in 2014. We expect similar decreases during the remainder of 2015 as compared to the same period in 2014.

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 amounts)				
Total revenues:					
2015	\$ 470,792	\$ 487,206	\$ 511,842		
2014	\$ 443,848	\$ 456,203	\$ 479,889	\$ 471,729	\$ 1,851,669
Total cost of operations:					
2015	\$ 141,997	\$ 129,073	\$ 132,124		
2014	\$ 140,429	\$ 127,717	\$ 129,709	\$ 104,560	\$ 502,415
Property taxes:					
2015	\$ 49,972	\$ 49,821	\$ 49,403		
2014	\$ 47,967	\$ 47,452	\$ 46,554	\$ 28,037	\$ 170,010
Repairs and maintenance:					
2015	\$ 16,000	\$ 8,935	\$ 10,048		
2014	\$ 14,823	\$ 9,510	\$ 9,938	\$ 9,397	\$ 43,668
Advertising and selling expense:					
2015	\$ 6,163	\$ 5,500	\$ 6,906		
2014	\$ 6,544	\$ 6,093	\$ 7,844	\$ 6,430	\$ 26,911
REVPAF:					
2015	\$ 14.21	\$ 14.73	\$ 15.43		
2014	\$ 13.35	\$ 13.76	\$ 14.46	\$ 14.24	\$ 13.95
Weighted average realized annual rent per occupied square foot:					
2015	\$ 15.21	\$ 15.44	\$ 16.19		
2014	\$ 14.41	\$ 14.53	\$ 15.27	\$ 15.23	\$ 14.86
Weighted average occupancy levels for the period:					
2015	93.4%	95.4%	95.3%		
2014	92.6%	94.7%	94.7%	93.5%	93.9%

## Analysis of Market Trends

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

## Same Store Facilities Operating Trends by Market

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change
(Amounts in thousands, except for weighted average data)						
<b>Revenues:</b>						
Los Angeles (205 facilities)	\$ 77,917	\$ 72,041	8.2%	\$ 224,337	\$ 207,902	7.9%
San Francisco (127 facilities)	43,348	40,020	8.3%	124,392	114,866	8.3%
New York (82 facilities)	33,452	31,780	5.3%	96,492	91,887	5.0%
Chicago (128 facilities)	30,434	29,512	3.1%	87,723	84,417	3.9%
Washington DC (75 facilities)	23,541	22,846	3.0%	68,136	66,406	2.6%
Seattle-Tacoma (83 facilities)	24,343	22,587	7.8%	69,176	64,353	7.5%
Miami (65 facilities)	22,311	21,180	5.3%	64,867	61,109	6.1%
Dallas-Ft. Worth (97 facilities)	20,332	18,736	8.5%	58,078	53,843	7.9%
Houston (75 facilities)	17,938	16,567	8.3%	51,422	47,524	8.2%
Atlanta (90 facilities)	17,508	16,283	7.5%	49,995	46,850	6.7%
Philadelphia (55 facilities)	12,592	12,026	4.7%	36,180	34,756	4.1%
Denver (45 facilities)	12,123	11,065	9.6%	34,267	30,999	10.5%
Minneapolis-St Paul (41 facilities)	9,726	9,503	2.3%	27,772	26,980	2.9%
Portland (42 facilities)	9,604	8,596	11.7%	27,039	24,435	10.7%
Orlando-Daytona (47 facilities)	8,946	8,173	9.5%	25,589	23,659	8.2%
All other markets (733 facilities)	147,727	138,974	6.3%	424,375	399,954	6.1%
<b>Total revenues</b>	<b>\$ 511,842</b>	<b>\$ 479,889</b>	<b>6.7%</b>	<b>\$ 1,469,840</b>	<b>\$ 1,379,940</b>	<b>6.5%</b>
<b>Net operating income:</b>						
Los Angeles	\$ 63,632	\$ 57,758	10.2%	\$ 181,850	\$ 164,947	10.2%
San Francisco	35,292	31,914	10.6%	100,615	90,551	11.1%
New York	23,861	22,524	5.9%	66,534	62,981	5.6%
Chicago	18,560	17,981	3.2%	49,500	46,397	6.7%
Washington DC	18,217	17,642	3.3%	51,190	50,150	2.1%
Seattle-Tacoma	19,341	17,794	8.7%	54,010	49,572	9.0%
Miami	15,618	14,757	5.8%	45,067	41,903	7.6%
Dallas-Ft. Worth	14,163	12,660	11.9%	39,412	35,955	9.6%
Houston	12,766	11,496	11.0%	36,433	32,739	11.3%
Atlanta	12,886	11,700	10.1%	35,861	32,993	8.7%
Philadelphia	8,888	8,523	4.3%	24,590	23,502	4.6%
Denver	9,180	8,241	11.4%	25,272	22,483	12.4%
Minneapolis-St. Paul	6,948	6,621	4.9%	19,096	17,758	7.5%
Portland	7,577	6,548	15.7%	20,887	18,199	14.8%

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Orlando-Daytona	6,213	5,476	13.5%	17,495	15,720	11.3%
All other markets	106,576	98,545	8.1%	298,834	276,235	8.2%
Total net operating income	\$ 379,718	\$ 350,180	8.4%	\$ 1,066,646	\$ 982,085	8.6%

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## Same Store Facilities Operating Trends by Market (Continued)

	Three Months Ended			Nine Months Ended		
	September 30, 2015	2014	Change	September 30, 2015	2014	Change
Weighted average square foot occupancy:						
occupancy:						
Los Angeles	96.1%	94.9%	1.3%	95.6%	94.2%	1.5%
San Francisco	96.7%	95.8%	0.9%	96.3%	95.1%	1.3%
New York	95.6%	94.7%	1.0%	95.0%	93.9%	1.2%
Chicago	94.0%	94.9%	(0.9)%	93.2%	93.7%	(0.5)%
Washington DC	94.3%	93.5%	0.9%	93.5%	92.9%	0.6%
Seattle-Tacoma	96.4%	95.2%	1.3%	95.4%	94.1%	1.4%
Miami	95.1%	94.8%	0.3%	94.9%	94.6%	0.3%
Dallas-Ft. Worth	95.5%	94.8%	0.7%	95.1%	94.3%	0.8%
Houston	95.0%	95.1%	(0.1)%	94.5%	94.4%	0.1%
Atlanta	95.8%	94.7%	1.2%	94.7%	93.5%	1.3%
Philadelphia	94.8%	94.1%	0.7%	93.9%	93.8%	0.1%
Denver	96.4%	96.2%	0.2%	96.0%	95.4%	0.6%
Minneapolis-St. Paul	94.5%	94.6%	(0.1)%	93.3%	93.9%	(0.6)%
Portland	97.3%	96.0%	1.4%	96.6%	95.6%	1.0%
Orlando-Daytona	96.0%	94.5%	1.6%	95.4%	93.6%	1.9%
All other markets	94.9%	94.4%	0.5%	94.4%	93.7%	0.7%
Total weighted average occupancy	95.3%	94.7%	0.6%	94.7%	94.0%	0.7%
Realized annual rent per occupied square foot:						
Los Angeles	\$ 22.22	\$ 20.77	7.0%	\$ 21.43	\$ 20.12	6.5%
San Francisco	23.66	22.03	7.4%	22.73	21.21	7.2%
New York	24.08	23.05	4.5%	23.33	22.40	4.2%
Chicago	15.34	14.74	4.1%	14.89	14.24	4.6%
Washington DC	21.35	21.07	1.3%	20.83	20.53	1.5%
Seattle-Tacoma	17.62	16.53	6.6%	16.88	15.88	6.3%
Miami	19.20	18.26	5.1%	18.65	17.56	6.2%
Dallas-Ft. Worth	13.07	12.14	7.7%	12.53	11.66	7.5%
Houston	13.73	12.70	8.1%	13.22	12.22	8.2%
Atlanta	11.62	10.91	6.5%	11.21	10.60	5.8%
Philadelphia	14.76	14.23	3.7%	14.29	13.69	4.4%
Denver	16.41	14.96	9.7%	15.53	14.07	10.4%
Minneapolis-St. Paul	13.91	13.60	2.3%	13.44	12.95	3.8%
Portland	17.22	15.59	10.5%	16.30	14.85	9.8%
Orlando-Daytona	12.39	11.47	8.0%	11.91	11.17	6.6%
All other markets	12.97	12.26	5.8%	12.52	11.85	5.7%
Total realized rent per square foot	\$ 16.19	\$ 15.27	6.0%	\$ 15.62	\$ 14.74	6.0%



Same Store Facilities Operating Trends by Market  
(Continued)

	Three Months Ended			Nine Months Ended		
	September 30, 2015	2014	Change	September 30, 2015	2014	Change
REVPAF:						
Los Angeles	\$ 21.35	\$ 19.71	8.3%	\$ 20.50	\$ 18.96	8.1%
San Francisco	22.87	21.10	8.4%	21.88	20.17	8.5%
New York	23.02	21.82	5.5%	22.15	21.04	5.3%
Chicago	14.42	13.99	3.1%	13.88	13.34	4.0%
Washington DC	20.12	19.69	2.2%	19.48	19.07	2.1%
Seattle-Tacoma	16.99	15.73	8.0%	16.10	14.95	7.7%
Miami	18.26	17.31	5.5%	17.69	16.62	6.4%
Dallas-Ft. Worth	12.49	11.51	8.5%	11.91	11.00	8.3%
Houston	13.05	12.08	8.0%	12.50	11.54	8.3%
Atlanta	11.13	10.34	7.6%	10.61	9.91	7.1%
Philadelphia	13.99	13.40	4.4%	13.42	12.85	4.4%
Denver	15.81	14.40	9.8%	14.90	13.43	10.9%
Minneapolis-St. Paul	13.15	12.87	2.2%	12.55	12.16	3.2%
Portland	16.76	14.97	12.0%	15.74	14.19	10.9%
Orlando-Daytona	11.89	10.85	9.6%	11.36	10.46	8.6%
All other markets	12.31	11.58	6.3%	11.81	11.11	6.3%
Total REVPAF	\$ 15.43	\$ 14.46	6.7%	\$ 14.79	\$ 13.86	6.7%

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

Non Same Store Facilities

The Non Same Store Facilities at September 30, 2015 represent 265 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2013, or that we did not own as of January 1, 2013. As a result of the stabilization process and timing of when the facilities were acquired, year-over-year changes can be significant.

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

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NON SAME STORE FACILITIES	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change

(Dollar amounts in thousands, except square foot amounts)

Revenues:

2015 acquisitions	\$ 1,861	\$ -	\$ 1,861	\$ 3,503	\$ -	\$ 3,503
2014 acquisitions	11,037	6,336	4,701	31,043	6,815	24,228
2013 acquisitions	28,832	25,376	3,456	81,936	71,147	10,789
Other facilities	27,404	22,670	4,734	76,319	62,759	13,560
Total revenues	69,134	54,382	14,752	192,801	140,721	52,080

Cost of operations:

2015 acquisitions	574	-	574	1,152	-	1,152
2014 acquisitions	3,166	1,926	1,240	9,303	2,118	7,185
2013 acquisitions	8,405	8,166	239	24,672	24,538	134
Other facilities	7,741	7,178	563	22,757	20,963	1,794
Total cost of operations	19,886	17,270	2,616	57,884	47,619	10,265

Net operating income:

2015 acquisitions	1,287	-	1,287	2,351	-	2,351
2014 acquisitions	7,871	4,410	3,461	21,740	4,697	17,043
2013 acquisitions	20,427	17,210	3,217	57,264	46,609	10,655
Other facilities	19,663	15,492	4,171	53,562	41,796	11,766
Net operating income	49,248	37,112	12,136	134,917	93,102	41,815

Depreciation and amortization

expense	(23,845)	(27,189)	3,344	(74,897)	(79,776)	4,879
Net income	\$ 25,403	\$ 9,923	\$ 15,480	\$ 60,020	\$ 13,326	\$ 46,694

At September 30:

Square foot occupancy:

2015 acquisitions	89.4%	-	-
2014 acquisitions	93.9%	91.6%	2.5%
2013 acquisitions	93.5%	90.7%	3.1%
Other facilities	86.5%	87.9%	(1.6)%
	90.7%	89.8%	1.0%

Annual contract rent per occupied square  
foot:

2015 acquisitions	\$ 13.38	\$ -	-
2014 acquisitions	13.69	12.01	14.0%
2013 acquisitions	15.25	14.16	7.7%
Other facilities	16.15	15.87	1.8%
	\$ 15.24	\$ 14.50	5.1%

Number of facilities:



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2015 acquisitions	10	-	10
2014 acquisitions	44	31	13
2013 acquisitions	121	121	-
Other facilities	90	80	10
	265	232	33
Net rentable square feet (in thousands):			
2015 acquisitions	738	-	738
2014 acquisitions	3,457	2,238	1,219
2013 acquisitions	8,056	8,036	20
Other facilities	7,802	6,590	1,212
	20,053	16,864	3,189

The facilities included above under “2015 acquisitions,” “2014 acquisitions” and “2013 acquisitions,” were acquired at a cost of \$97.9 million, \$430.7 million, and \$1.16 billion, respectively.

For the nine months ended September 30, 2015, the weighted average annualized yield on cost, based upon net operating income, for the facilities acquired in each of 2014 and 2013 was 6.7% and 6.6%, respectively. The yields for the facilities acquired in the nine months ended September 30, 2015 were not meaningful due to our limited ownership period.

We believe that our management and operating infrastructure allows us to generate higher net operating income from newly acquired facilities than was achieved by the previous owners. However, it can take 24 or more months for us to fully achieve the higher net operating income, and the ultimate levels of net operating income to be achieved can be affected by changes in general economic conditions. As a result, there can be no assurance that we will achieve our expectations with respect to these newly acquired facilities.

Since the beginning of 2013, we have opened development and expansion projects with a total cost of \$273 million. These expanded and newly developed facilities are included in “Other facilities” in the table above. We believe that our real estate development activities are beneficial to our business operations over the long run. However, in the short run, due to the three to four year period that it takes to fill up newly developed storage space and reach a stabilized level of cash flows, our earnings are diluted because of an increasing level of development and unstabilized properties in our portfolio.

We expect the Non Same Store Facilities to continue to provide increased net operating income during the remainder of 2015 as these facilities approach stabilized occupancy levels and the earnings of the 2014 acquisitions are reflected in our operations for a longer period in 2015 as compared to 2014.

We also expect to increase the number of Non Same Store Facilities over at least the next 24 months through development of new self-storage facilities, expansions to existing facilities and acquisitions of facilities.

As of September 30, 2015, we had development and expansion projects which will add approximately 4.0 million net rentable square feet of storage space at a total cost of approximately \$507 million. A total of \$175 million of these costs were incurred through September 30, 2015, with the remaining costs expected to be incurred in the remainder of 2015 and 2016. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities. We believe that the resulting dilution from our development activities will also grow in the remainder of 2015 and beyond.

Subsequent to September 30, 2015, we acquired or were under contract to acquire eleven self-storage facilities (eight in Florida, two in Texas and one in California) with 0.8 million net rentable square feet for \$107.7 million. We will continue to seek to acquire facilities in the remainder of 2015; however, there is significant competition to acquire existing facilities and there can be no assurance we will continue to acquire facilities.

Depreciation and amortization with respect to the Non Same Store Facilities decreased \$3.3 million and \$4.9 million during the three and nine months ended September 30, 2015 as compared to the same periods in 2014 due primarily to reduced amortization of tenant intangibles, offset by an increase in building depreciation with respect to the acquired and developed facilities. These intangible assets represent the value of the tenants in place at the time the facilities are acquired and are amortized relative to the benefit of these tenants to each period. Intangible amortization totaled \$5.5 million and \$21.3 million for the three and nine months ended September 30, 2015, respectively, as compared to \$12.6 million and \$37.4 million for the same periods in 2014. Based upon the facilities we own at September 30,

2015, amortization expense with respect to such intangibles is estimated at \$4.2 million for the remainder of 2015, as compared to \$11.0 million for the same period in 2014. The level of future depreciation and amortization will also depend upon the level of acquisitions of facilities, as well as the level of newly developed storage space.

## Ancillary Operations

Ancillary revenues and expenses include amounts associated with the reinsurance of policies against losses to goods stored by tenants in our self-storage facilities in the U.S. and the sale of merchandise at our self-storage facilities. The following table sets forth our ancillary operations:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change
(Amounts in thousands)						
Revenues:						
Tenant reinsurance premiums	\$ 28,175	\$ 24,117	\$ 4,058	\$ 81,617	\$ 70,020	\$ 11,597
Merchandise	9,721	8,702	1,019	28,108	24,934	3,174
Total revenues	37,896	32,819	5,077	109,725	94,954	14,771
Cost of Operations:						
Tenant reinsurance	6,562	6,151	411	18,923	19,764	(841)
Merchandise	6,114	5,438	676	17,792	15,709	2,083
Total cost of operations	12,676	11,589	1,087	36,715	35,473	1,242
Net income						
Tenant reinsurance	21,613	17,966	3,647	62,694	50,256	12,438
Merchandise	3,607	3,264	343	10,316	9,225	1,091
Total net income	\$ 25,220	\$ 21,230	\$ 3,990	\$ 73,010	\$ 59,481	\$ 13,529

Tenant reinsurance operations: Our tenants have the option of purchasing insurance from a non-affiliated insurance company to cover certain losses to their goods stored at our facilities. A wholly-owned, consolidated subsidiary of Public Storage fully reinsures such policies, assuming all risk of losses under these policies. The subsidiary received reinsurance premiums substantially equal to the premiums collected from our tenants by the non-affiliated insurance company. Such reinsurance premiums are shown as "Tenant reinsurance premiums" in the above table.

The subsidiary pays a fee to Public Storage to assist with the administration of the program and allow the insurance to be marketed to our customers. Such fees represent a substantial amount of the reinsurance premiums received by our subsidiary. These fees are eliminated in consolidation and are therefore not shown in the above table.

Tenant reinsurance revenue increased from \$24.1 million in the three months ended September 30, 2014 to \$28.2 million in the three months ended September 30, 2015, and from \$70.0 million in the nine months ended September 30, 2014 to \$81.6 million in the nine months ended September 30, 2015 due to (i) increased average premiums per insured tenant resulting from higher average policy limits, (ii) a higher proportion of tenants having insurance, and (iii) a larger number of potential insurance customers due to higher occupancies and newly acquired facilities in 2014 and the first nine months of 2015.

We expect continued increases in tenant insurance revenues in the remainder of 2015 due to the same factors noted above.

Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. Tenant reinsurance cost of operations for the nine months ended September 30, 2014 includes a \$4.1 million reduction associated with the recognition of a deferred tax asset and a \$7.8 million accrual related to a legal settlement. The increases of \$0.4 million and \$2.8 million in ongoing cost of operations for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014 are due

primarily to an increase in exposure associated with more insured tenants and for the nine months ended September 30, 2015, losses incurred in connection with flooding in the Houston market. We expect an aggregate of \$1.0 million in incremental claims expense related to flooding in South Carolina during the three months ending December 31, 2015.

Merchandise sales: We sell locks, boxes, and packing supplies at our self-storage facilities, and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. We do not expect any significant changes in revenues or profitability from our merchandise sales in the remainder of 2015.

#### Equity in earnings of unconsolidated real estate entities

At September 30, 2015, we have equity investments in PSB, Shurgard Europe and various limited partnerships. We account for such investments using the equity method and record our pro-rata share of the net income of these entities for each period. The following table, and the discussion below, sets forth the significant components of our equity in earnings of unconsolidated real estate entities:

	Three Months Ended September			Nine Months Ended September		
	30,		Change	30,		Change
	2015	2014		2015	2014	

(Amounts in thousands)

#### Equity in earnings:

PSB	\$ 10,323	\$ 5,513	\$ 4,810	\$ 25,734	\$ 15,165	\$ 10,569
Shurgard Europe	1,616	8,363	(6,747)	8,707	26,626	(17,919)
Other Investments	664	690	(26)	1,826	1,514	312
Total equity in earnings	\$ 12,603	\$ 14,566	\$ (1,963)	\$ 36,267	\$ 43,305	\$ (7,038)

Investment in PSB: At September 30, 2015 and December 31, 2014, we had approximately a 42% common equity interest in PSB, comprised of our ownership of 7,158,354 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.

At September 30, 2015, PSB owned and operated 28.0 million rentable square feet of commercial space located in six states. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB increased to \$10.3 million and \$25.7 million for the three and nine months ended September 30, 2015, respectively, as compared to \$5.5 million and \$15.2 million for the same periods in 2014, due primarily to our \$5.3 million and \$10.4 million equity share of gains on sale of facilities recorded by PSB for the three and nine months ended September 30, 2015, respectively. See Note 4 to our September 30, 2015 financial statements for selected financial information on PSB, as well as PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, [www.psbusinessparks.com](http://www.psbusinessparks.com).

Investment in Shurgard Europe: We have a 49% equity share in Shurgard Europe's net income. At September 30, 2015, Shurgard Europe's operations are comprised of 216 wholly-owned facilities with 11 million net rentable square feet. See Note 4 to our September 30, 2015 financial statements for selected financial data on Shurgard Europe for the nine months ended September 30, 2015 and 2014.

Our equity in earnings from Shurgard Europe decreased \$6.7 million and \$17.9 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. These decreases are due primarily to (i) our \$1.4 million and \$4.8 million equity share for the three and nine month periods, respectively, of acquisition costs associated with Shurgard Europe's June 2015 property acquisition described below, (ii) our equity share of increased interest expense due to Shurgard Europe's issuance of €300.0 million of debt in each of June 2014 and July 2015, (iii) our equity share of increased depreciation expense due primarily to property acquisitions, and (iv) reductions of 16.1% and 17.8% in average exchange rates between the U.S. Dollar and the

Euro for the three and nine month periods, offset partially by (v) our equity share of improved property operations and earnings from newly acquired facilities, as measured on a constant exchange rate basis.

On June 30, 2015, Shurgard Europe acquired 23 facilities in the Netherlands (0.9 million net rentable square feet), for an aggregate of approximately \$130 million (€117 million).

In June 2015, Shurgard Europe issued €300.0 million of unsecured senior notes with maturities in 10, 12 and 15 years and an average interest rate of 2.7%. Shurgard Europe used a portion of these funds to acquire the Netherlands facilities noted above and to repay all credit facility borrowings. Shurgard Europe had approximately €109 million in cash at September 30, 2015.

Our future earnings from Shurgard Europe will be affected primarily by the operating results of its existing facilities, as well as the exchange rate between the U.S. Dollar and currencies in the countries in which Shurgard Europe conducts its business, principally the Euro. Assuming a continuation of the 1.115 exchange rate for the nine months ended September 30, 2015, compared to approximately 1.249 for the last three months of 2014, our earnings will be negatively impacted in the remainder of 2015.

#### Analysis of items not allocated to segments

General and administrative expense: The following table sets forth our general and administrative expense:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change
	(Amounts in thousands)					
Share-based compensation expense	\$ 9,911	\$ 8,794	\$ 1,117	\$ 24,403	\$ 22,158	\$ 2,245
Costs of senior executives	419	419	-	5,135	5,141	(6)
Development and acquisition costs	1,933	3,372	(1,439)	6,945	7,879	(934)
Tax compliance costs and taxes paid	1,121	1,083	38	3,880	3,443	437
Legal costs	6,417	1,401	5,016	15,350	3,159	12,191
Public company costs	862	848	14	2,758	2,553	205
Other costs	2,910	1,957	953	10,250	7,907	2,343
Total	\$ 23,573	\$ 17,874	\$ 5,699	\$ 68,721	\$ 52,240	\$ 16,481

Share-based compensation expense includes the amortization of restricted share units and stock options granted to employees, as well as related employer taxes. The level of share-based compensation expense varies based upon the level of grants and forfeitures as well as the Company's stock price on the date of grant. The increases in share-based compensation costs in the three and nine months ended September 30, 2015 as compared to the same periods in 2014 are due primarily to additional share-based grants, and we expect increases at a similar rate in the remainder of 2015. See Note 10 to our September 30, 2015 financial statements for further information on our share-based compensation.

Costs of senior executives represent the cash compensation paid to our chief executive officer and chief financial officer.



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Development and acquisition costs represent internal and external expenses related to our acquisition and development activities and varies primarily based upon the level of development and acquisition activities undertaken. The decreases in the three and nine month periods are due primarily to reductions in the level of facilities acquired from third parties. Our aggregate development and acquisition costs are expected to increase modestly in the remainder of 2015 as compared to the same periods in 2014.

Tax compliance costs and taxes paid include taxes paid to various state and local authorities, the internal and external costs of filing tax returns, costs associated with complying with federal and state tax laws, and

maintaining our compliance with Internal Revenue Service REIT rules. Such costs vary primarily based upon the tax rates of the various states in which we do business.

Legal costs include internal personnel as well as fees paid to legal firms and other third parties with respect to general corporate legal matters and risk management, and varies based upon the level of litigation. The increases of \$5.0 million and \$12.2 million in legal costs in the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014, are due primarily to legal fees and expenses associated with certain litigated matters, as well as \$3.5 million accrued in connection with the settlement of a legal matter. Given our current level of litigation, we believe our legal costs will be higher in the remainder of 2015 as compared to the same periods in 2014.

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

Other costs represent professional and consulting fees, payroll and overhead that are not directly attributable to our property operations. Such costs vary depending upon the level of corporate activities and initiatives and, as such, are not predictable.

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

**Interest and other income:** Interest and other income is comprised primarily of the net income from our commercial operations and property management operations. Amounts attributable to these activities totaled \$2.9 million and \$3.1 million for the three months ended September 30, 2015 and 2014, respectively, and \$9.1 million and \$9.5 million for the nine months ended September 30, 2015 and 2014, respectively. We do not expect any significant changes in these activities in the remainder of 2015.

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

**Interest expense:** For the three and nine months ended September 30, 2015, we incurred \$0.6 million and \$1.8 million, respectively, of interest on our outstanding debt, all of which was capitalized. For the three and nine months ended September 30, 2014, we incurred \$1.6 million and \$7.6 million of interest, respectively, of which \$0.4 million and \$0.8 million, respectively, was capitalized. Interest expense incurred decreased in each of the periods in 2015, as compared to the same periods in 2014, due to reduced outstanding debt. See Note 6 to our September 30, 2015 financial statements for a schedule of our notes payable balances, principal repayment requirements and average interest rates at September 30, 2015. On November 3, 2015, we issued €242.0 million of Euro-denominated unsecured Senior Notes, bearing interest at a fixed rate of 2.175% and maturing in 2025. Future interest expense will be dependent upon the level of outstanding debt and the amount of in-process development costs.

**Foreign Exchange Gain (Loss):** Foreign currency translation losses were nil for each of the three and nine month periods ended September 30, 2015 and \$3.0 million and \$7.0 million for the three and nine months ended September 30, 2014, respectively. Such losses were attributable to our Euro-based loan receivable from Shurgard Europe, which was repaid in July 2014. Future gains and losses on foreign currency translation will be dependent upon changes in the relative value of the Euro to the U.S. Dollar, applied to our €242.0 million of Euro-denominated Senior Unsecured

Notes which were issued on November 3, 2015.

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**Gain on Real Estate Sales:** During the nine months ended September 30, 2015, we sold three real estate facilities in connection with eminent domain proceedings, recording gains on real estate sales totaling \$18.5 million (\$0.3 million in the three months ended September 30, 2015).

**Net Income Allocable to Preferred Shareholders:** Net income allocable to preferred shareholders based upon distributions increased during the three and nine months ended September 30, 2015 as compared to the same periods in 2014 due primarily to higher average outstanding preferred shares. We also allocated \$4.1 million and \$8.9 million of income from our common shareholders to the holders of our Preferred Shares in the three and nine months ended September 30, 2015, respectively, in applying Codification Section 260-10-S99-2 to the redemption of our Preferred Shares. Based upon our preferred shares outstanding at September 30, 2015 (and excluding the Series P Preferred Shares that were redeemed on October 8, 2015), our quarterly distribution to our preferred shareholders is expected to be approximately \$59.0 million.

### Liquidity and Capital Resources

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

As of September 30, 2015, we have capital resources in excess of \$1 billion and planned capital needs over the next year totaling approximately \$577 million. Our capital resources are comprised of \$485 million of available borrowing capacity on our line of credit, \$260 million of expected retained operating cash flow for the next twelve months, and \$264 million of net proceeds from a November 3, 2015 debt issuance. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain real estate facilities. Our planned capital needs consist of \$332 million of remaining spend on our development pipeline, \$125 million for the redemption of our Series P Preferred Shares on October 8, 2015, \$108 million in property acquisitions, and \$12 million in debt repayment. We expect that our planned capital needs will continue to grow as we continue to seek additional development and acquisition opportunities.

We believe we have a variety of possibilities to raise additional capital, including issuing common or preferred securities, issuing debt, or entering into joint venture arrangements to acquire or develop facilities.

**Debt Service Requirements:** As of September 30, 2015, our outstanding debt totaled approximately \$55.7 million. Approximate principal maturities of our debt are \$0.6 million in the remainder of 2015, \$29.0 million in 2016, \$9.2 million in 2017, \$11.1 million in 2018, \$1.2 million in 2019 and \$4.6 million thereafter.

On November 3, 2015, we issued €242 million of Euro-denominated unsecured Senior Notes, bearing interest at a fixed rate of 2.175% and maturing in ten years.

**Capital Expenditure Requirements:** Capital expenditures include major repairs or replacements to elements of our facilities to keep our facilities in good operating condition and maintain their visual appeal to the customer, which totaled \$52.9 million in the nine months ended September 30, 2015. Capital expenditures do not include costs relating to the development of new facilities or the expansion of net rentable square footage of existing facilities. For the year ending December 31, 2015, we expect to incur approximately \$69 million for capital expenditures and to fund such amounts with cash provided by operating activities. For the last four years, such capital expenditures have ranged

between approximately \$0.55 and \$0.60 per net rentable square foot per year.

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

Distributions paid during the nine months ended September 30, 2015 totaled \$1.0 billion, consisting of \$186.1 million to preferred shareholders and \$831.3 million to common shareholders and restricted share unitholders. All of these distributions were REIT qualifying distributions.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at September 30, 2015 to be approximately \$236 million per year.

On October 28, 2015, our Board declared a regular common quarterly dividend of \$1.70 per common share. Our consistent, long-term dividend policy has been to distribute only our taxable income. Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with cash provided by operating activities.

We estimate we will pay approximately \$8 million per year in distributions to noncontrolling interests outstanding at September 30, 2015.

**Real Estate Investment Activities:** Subsequent to September 30, 2015, we acquired or were under contract to acquire (subject to customary closing conditions) eleven self-storage facilities (eight in Florida, two in Texas and one in California) with 0.8 million net rentable square feet for \$107.7 million. We will continue to seek to acquire facilities; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of September 30, 2015, we had development and expansion projects which will add approximately 4.0 million net rentable square feet of storage space at a total cost of approximately \$507 million. A total of \$175 million in costs were incurred through September 30, 2015 with respect to these projects, with the remaining \$332 million of costs expected to be incurred in the remainder of 2015 and 2016. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding available sites for building that meet our risk-adjusted yield expectations, as well as the challenges in obtaining building permits for self-storage activities in certain municipalities.

**Redemption of Preferred Securities:** On April 15, 2015, we redeemed our 6.875% Series O Preferred Shares for \$145 million, at par and on October 8, 2015, we redeemed our 6.500% Series P Preferred Shares for \$125 million, at par. Our 6.50% Series Q Preferred Shares, with \$375 million outstanding, becomes redeemable at our option in April 2016, and our 6.35% Series R Preferred Shares, with \$487.5 million outstanding, becomes redeemable at our option in July 2016; however, redemption of such preferred shares will depend upon many factors including whether we can issue capital at a lower cost of capital than the shares that would be redeemed. None of our preferred securities are redeemable at the option of the holders.

**Repurchases of Company's Common Shares:** Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During the nine months ended September 30, 2015, we did not repurchase any of our common shares. From the inception of the repurchase program through November 4, 2015, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. We have no current plans to repurchase additional common shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.



## Contractual Obligations

Our significant contractual obligations at September 30, 2015 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

	Total	Remainder of 2015	2016	2017	2018	2019	Thereafter
Long-term debt (1)	\$ 61,064	\$ 1,241	\$ 31,249	\$ 10,040	\$ 11,803	\$ 1,518	\$ 5,213
Preferred shares called for redemption (2)	125,000	125,000	-	-	-	-	-
Operating leases (3)	70,216	908	3,711	2,600	2,429	2,372	58,196
Construction commitments (4)	153,813	123,050	30,763	-	-	-	-
Total	\$ 410,093	\$ 250,199	\$ 65,723	\$ 12,640	\$ 14,232	\$ 3,890	\$ 63,409

(1) Amounts include principal and interest payments (all of which are fixed-rate) on our notes payable based on their contractual terms. See Note 6 to our September 30, 2015 financial statements for additional information on our notes payable. The table excludes approximately €242 million of Euro-denominated unsecured Senior Notes, bearing interest at a fixed rate of 2.175% and maturing in ten years, which were issued on November 3, 2015.

(2) In September 2015, we called for redemption of all of our Series P Preferred Shares, at par plus accrued dividends. We redeemed these shares on October 8, 2015. Amounts include the liquidation amount of \$125.0 million.

(3) Amounts reflect expected future payments under the terms of operating leases for land, equipment and office space.

(4) Amounts exclude an additional \$178.2 million in future expected development spending that was not under contract at September 30, 2015.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at September 30, 2015, to be approximately \$236.0 million per year. Dividends are paid when and if declared by our Board and accumulate if not paid.

Off-Balance Sheet Arrangements: At September 30, 2015, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

## ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes from the quantitative and qualitative disclosures about market risk disclosed in Item 7A of Part II of our Form 10-K for the year ended December 31, 2014.



ITEM 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file and submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in accordance with SEC guidelines and that such information is communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no

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matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures in reaching that level of reasonable assurance. We also have investments in certain unconsolidated real estate entities and because we do not control these entities, our disclosure controls and procedures with respect to such entities are substantially more limited than those we maintain with respect to our consolidated subsidiaries.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level.

#### Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

We are a party to various legal proceedings and subject to various claims and complaints; however, we believe that the likelihood of these contingencies resulting in a material loss to the Company, either individually or in the aggregate, is remote.

### ITEM 1A. Risk Factors

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K filed for the year ended December 31, 2014, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results and could cause our actual results to differ materially from expectations. In addition, in considering the forward-looking statements contained in this Form 10-Q and elsewhere, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Part I, Item 2 of this Form 10-Q.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Common Share Repurchases

Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through November 4, 2015, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately \$679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of September 30, 2015. We have no current plans to repurchase additional common shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

#### Preferred Share Redemptions

We had no preferred redemptions during the three months ended September 30, 2015.

### ITEM 6. Exhibits

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

SIGNATURES

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

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DATED: November 4, 2015

PUBLIC STORAGE

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

PUBLIC STORAGE  
INDEX TO EXHIBITS (1)  
(Items 15(a)(3) and 15(c))

- 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. Filed herewith.
  - 31.1 Rule 13a – 14(a) Certification. Filed herewith.
  - 31.2 Rule 13a – 14(a) Certification. Filed herewith.
  - 32 Section 1350 Certifications. Filed herewith.
  - 101 .INS XBRL Instance Document. Filed herewith.
  - 101 .SCH XBRL Taxonomy Extension Schema. Filed herewith.
  - 101 .CAL XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
  - 101 .DEF XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
  - 101 .LAB XBRL Taxonomy Extension Label Linkbase. Filed herewith.
  - 101 .PRE XBRL Taxonomy Extension Presentation Link. Filed herewith.
- \_(1)SEC File No. 001-33519 unless otherwise indicated.