Public Storage
Form 10-Q
November 09, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to .

Commission File Number: 001-33519

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

Maryland (State or other jurisdiction of incorporation or organization)	95-3551121 (I.R.S. Employer Identification Number)
701 Western Avenue, Glendale, California (Address of principal executive offices)	91201-2349 (Zip Code)

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

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

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

[ ] Yes [X] No

Indicate the number of the registrant’s outstanding common shares of beneficial interest, as of November 7, 2012:

Common Shares of beneficial interest, $.10 par value per share – 171,648,540 shares

PUBLIC STORAGE

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

ASSETS	September 30, 2012 (Unaudited)	December 31, 2011
Cash and cash equivalents	$535,752	$139,008
Real estate facilities, at cost:		
Land	2,852,481	2,811,515
Buildings	8,128,225	7,966,061
	10,980,706	10,777,576
Accumulated depreciation	(3,650,000)	(3,398,379)
	7,330,706	7,379,197
Investment in unconsolidated real estate entities	716,401	714,627
Goodwill and other intangible assets, net	210,148	209,833
Loans receivable from unconsolidated real estate entities	399,794	402,693
Other assets	95,319	87,204
Total assets	$9,288,120	$8,932,562
LIABILITIES AND EQUITY		
Notes payable	$347,943	$398,314
Preferred shares called for redemption (Note 8)	367,325	-
Accrued and other liabilities	242,706	210,966
Total liabilities	957,974	609,280
Redeemable noncontrolling interests	-	12,355
Commitments and contingencies (Note 12)		
Equity:		
Public Storage shareholders:		
Cumulative Preferred Shares of beneficial interest, $0.01 par value, 100,000,000 shares authorized, 128,000 shares issued (in series) and	3,200,000	3,111,271

outstanding, (475,000 at December 31, 2011) at liquidation preference		
Common Shares of beneficial interest, $0.10 par value, 650,000,000 shares authorized, 170,634,560 shares issued and outstanding (170,238,805 at December 31, 2011)	17,064	17,024
Paid-in capital	5,411,623	5,442,506
Accumulated deficit	(312,690)	(259,578)
Accumulated other comprehensive loss	(15,371)	(23,014)
Total Public Storage shareholders' equity	8,300,626	8,288,209
Permanent noncontrolling interests	29,520	22,718
Total equity	8,330,146	8,310,927
Total liabilities and equity	$9,288,120	$8,932,562

See accompanying notes.

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Operating Revenues:				
Self-storage facilities	$ 440,918	$ 415,552	$ 1,268,256	$ 1,194,753
Ancillary operations	32,013	30,011	93,022	85,817
	472,931	445,563	1,361,278	1,280,570
Operating Expenses:				
Self-storage cost of operations	127,367	128,787	395,381	393,446
Ancillary cost of operations	9,857	9,793	29,156	28,304
Depreciation and amortization	89,897	90,821	265,195	268,254
General and administrative	15,298	14,116	44,117	40,944
Asset impairment charges	-	2,186	-	2,186
	242,419	245,703	733,849	733,134
Operating income	230,512	199,860	627,429	547,436
Interest and other income	5,444	6,875	16,639	25,218
Interest expense	(4,926)	(5,862)	(15,327)	(18,779)
Equity in earnings of unconsolidated real estate entities	12,642	15,269	30,353	41,755
Foreign currency exchange gain (loss)	9,019	(28,253)	(2,481)	13,495
Gain on real estate sales and debt retirement	193	4,983	1,456	5,111
Income from continuing operations	252,884	192,872	658,069	614,236
Discontinued operations	11,935	1,641	12,403	1,786
Net income	264,819	194,513	670,472	616,022
Allocation to noncontrolling interests	(927)	(3,374)	(2,585)	(12,331)
Net income allocable to Public Storage shareholders	263,892	191,139	667,887	603,691
Allocation to preferred shareholders - distributions	(49,267)	(56,670)	(156,272)	(172,926)
Allocation to preferred shareholders - redemptions	(11,350)	(16,178)	(49,677)	(32,077)
Allocation to restricted share units	(810)	(341)	(1,787)	(1,164)
Net income allocable to common shareholders	$ 202,465	$ 117,950	$ 460,151	$ 397,524
Net income per common share				

Basic				
Continuing operations	$ 1.12	$ 0.68	$ 2.63	$ 2.34
Discontinued operations	0.07	0.01	0.07	0.01
	$ 1.19	$ 0.69	$ 2.70	$ 2.35
Diluted				
Continuing operations	$ 1.11	$ 0.68	$ 2.61	$ 2.32
Discontinued operations	0.07	0.01	0.07	0.01
	$ 1.18	$ 0.69	$ 2.68	$ 2.33
Weighted average common shares outstanding				
Basic	170,576	169,728	170,460	169,512
Diluted	171,700	170,830	171,558	170,538
Cash dividends declared per common share	$ 1.10	$ 0.95	$ 3.30	$ 2.70

See accompanying notes.

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PUBLIC STORAGE
STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	$ 264,819	$ 194,513	$ 670,472	$ 616,022
Other comprehensive income (loss):				
Aggregate foreign currency exchange gain (loss)	21,081	(45,137)	5,162	14,050
Adjust for foreign currency exchange (gain) loss included in net income	(9,019)	28,253	2,481	(13,495)
Other comprehensive income (loss)	12,062	(16,884)	7,643	555
Total comprehensive income	276,881	177,629	678,115	616,577
Allocation to noncontrolling interests	(927)	(3,374)	(2,585)	(12,331)
Comprehensive income allocated to Public Storage shareholders	$ 275,954	$ 174,255	$ 675,530	$ 604,246

See accompanying notes.

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PUBLIC STORAGE
STATEMENT OF EQUITY
(Amounts in thousands, except share data)
(Unaudited)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Public Storage Shareholders' Equity	Permanent Noncontrolling Interests	Total Equity
Balance at December 31, 2011	$3,111,271	$17,024	$5,442,506	$(259,578)	$(23,014)	$8,288,209	$22,718	$8,310,927
Issuance of cumulative preferred shares (68,200,000 shares) (Note 8)	1,705,000	-	(53,544)	-	-	1,651,456	-	1,651,456
Redemption of cumulative preferred shares (64,650,833 shares) (Note 8)	(1,616,271)	-	-	-	-	(1,616,271)	-	(1,616,271)
Issuance of common shares in connection with share-based compensation (395,755 shares) (Note 10)	-	40	20,967	-	-	21,007	-	21,007
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	10,549	-	-	10,549	-	10,549
Acquisition of redeemable noncontrolling interests (Note 7)	-	-	(7,954)	-	-	(7,954)	-	(7,954)
Increase (decrease) in permanent noncontrolling interest in connection with:								
	-	-	-	-	-	-	8,224	8,224

Consolidation of partially-owned entities (Note 4)								
Acquisition of interests in Subsidiaries (Note 7)	-	-	(901)	-	-	(901)	(75)	(976)
Net income of the Company	-	-	-	670,472	-	670,472	-	670,472
Net income allocated to:								
Redeemable noncontrolling interests	-	-	-	(236)	-	(236)	-	(236)
Permanent noncontrolling interests	-	-	-	(2,349)	-	(2,349)	2,349	-
Distributions to equity holders:								
Cumulative preferred shares (Note 8)	-	-	-	(156,272)	-	(156,272)	-	(156,272)
Permanent noncontrolling interests	-	-	-	-	-	-	(3,696)	(3,696)
Common shares and restricted share units ($3.30 per share)	-	-	-	(564,727)	-	(564,727)	-	(564,727)
Other comprehensive income (Note 2)	-	-	-	-	7,643	7,643	-	7,643
Balance at September 30, 2012	$3,200,000	$17,064	$5,411,623	$(312,690)	$(15,371)	$8,300,626	$29,520	$8,330,146

See accompanying notes.

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

	For the Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 670,472	$ 616,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on real estate sales and debt retirement, including amounts in discontinued operations	(13,191)	(5,799)
Asset impairment charges	-	2,186
Depreciation and amortization, including amounts in discontinued operations	265,517	268,695
Distributions received from unconsolidated real estate entities in excess of equity in earnings	3,119	97
Foreign currency exchange loss (gain)	2,481	(13,495)
Other	27,357	41,087
Total adjustments	285,283	292,771
Net cash provided by operating activities	955,755	908,793
Cash flows from investing activities:		
Capital improvements to real estate facilities	(58,642)	(57,026)
Construction in process	(5,265)	(16,743)
Acquisition of real estate facilities and property intangibles (Note 3)	(143,827)	(60,888)
Proceeds from sales of other real estate investments	15,973	4,753
Loans to unconsolidated real estate entities	-	(358,877)
Repayments of loans receivable from unconsolidated real estate entities (Note 5)	-	163,663
Disposition of loans receivable from unconsolidated real estate entities (Note 5)	-	121,317
Acquisition of investments in unconsolidated real estate entities	-	(1,274)
Maturities of marketable securities	-	102,279
Other investing activities	4,022	537
Net cash used in investing activities	(187,739)	(102,259)
Cash flows from financing activities:		
Principal payments on notes payable	(49,287)	(154,411)
Net proceeds from the issuance of common shares	21,007	15,728
Issuance of cumulative preferred shares	1,651,456	835,627
Redemption of cumulative preferred shares	(1,248,946)	(1,042,256)
Acquisition of redeemable noncontrolling interests	(19,900)	-
Acquisition of permanent noncontrolling interests	(976)	(112,115)
Distributions paid to Public Storage shareholders	(720,999)	(632,248)
Distributions paid to noncontrolling interests	(4,341)	(12,237)
Net cash used in financing activities	(371,986)	(1,101,912)

Net increase (decrease) in cash and cash equivalents		396,030		(295,378)
Net effect of foreign exchange translation on cash		714		(141)
Cash and cash equivalents at the beginning of the period		139,008		456,252
Cash and cash equivalents at the end of the period	$	535,752	$	160,733

See accompanying notes.

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

(Continued)

	For the Nine Months Ended September 30,	
	2012	2011
Supplemental schedule of non-cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	$ (643)	$ (139)
Investment in unconsolidated real estate entities	(6,701)	(269)
Intangible assets	(3)	-
Loans receivable from unconsolidated real estate entities	418	(13,783)
Accumulated other comprehensive income	7,643	14,050
Preferred shares called for redemption and reclassified to liabilities:		
Preferred shares called for redemption	367,325	-
Cumulative preferred shares	(367,325)	-
Consolidation of entities previously accounted for under the equity method of accounting (Note 4):		
Real estate facilities	(10,403)	(19,415)
Investments in unconsolidated real estate entities	3,072	6,126
Intangible assets	(949)	(3,985)
Permanent noncontrolling interests	8,224	17,663
Adjustments of redeemable noncontrolling interests to fair values:		
Accumulated deficit	-	(259)
Redeemable noncontrolling interests	-	259
Exchange of loan receivable from Shurgard Europe for investment (Note 5):		
Loans receivable from unconsolidated real estate entities	-	116,560
Investment in unconsolidated real estate entities	-	(116,560)

Real estate acquired in connection with elimination of intangible assets	-	(4,738)
Intangible assets eliminated in connection with acquisition of real estate	-	4,738
Real estate acquired in exchange for assumption of note payable	-	(9,679)
Note payable assumed in connection with acquisition of real estate	-	9,679
Noncontrolling interests acquired in exchange for the issuance of common shares (Note 7)		
Additional paid in capital (noncontrolling interests acquired)	-	(57,108)
Common shares	-	48
Additional paid in capital (common shares issued)	-	57,060

See accompanying notes.

PUBLIC STORAGE
CONDENSED NOTES TO FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

1. Description of the Business

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

At September 30, 2012, we had direct and indirect equity interests in 2,069 self-storage facilities (with approximately 132 million net rentable square feet) located in 38 states in the 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 188 self-storage facilities (with approximately 10.1 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 29.8 million net rentable square feet of commercial space located in 11 states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At September 30, 2012, we have an approximate 41% interest in PSB.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) as defined in the Financial Accounting Standards Board Accounting Standards Codification (the “Codification”), including guidance with respect to interim financial information, and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. While they do not include all of the disclosures required by GAAP for complete financial statements, we believe that we have included all adjustments (consisting of normal and recurring adjustments) necessary for a fair presentation. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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, 2011.

Certain amounts previously reported in our December 31, 2011 and September 30, 2011 financial statements have been reclassified to conform to the September 30, 2012 presentation, as a result of discontinued operations.

Consolidation and Equity Method of Accounting

The Codification stipulates generally that entities with 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, are considered Variable Interest Entities (“VIE”). We have determined that we have no investments in any VIEs.

We consolidate all entities that we control (these entities, for the period in which the reference applies, are referred to collectively as the "Subsidiaries"), and we eliminate intercompany transactions and balances. We account for our investments in entities that we do not control, but we have significant influence over, using the equity method of accounting (these entities, for the periods in which the reference applies, are referred to collectively as the "Unconsolidated Real Estate Entities"). When we obtain control of entities in which we already own a partial equity interest, we record a gain representing the differential between the book value and fair value of our preexisting equity interest. We then commence consolidating the assets, liabilities, and any noncontrolling interests of the entity. All such changes in consolidation status are reflected prospectively.

PUBLIC STORAGE
CONDENSED NOTES TO FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

When we are the general partner of a partnership, we assume that 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, 2012, the Company and the Subsidiaries own 2,055 self-storage facilities in the U.S., one self-storage facility in London, England and six commercial facilities in the U.S. At September 30, 2012, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 14 self-storage facilities in the U.S. with 0.8 million net rentable square feet (these limited partnerships, for the periods in which the reference applies, are referred to as the “Other Investments”).

Use of Estimates

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

Income Taxes

We have elected to be treated as a real estate investment trust (“REIT”), as defined in the Internal Revenue Code. As a REIT, we do not incur federal income tax if we distribute 100% of our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) each year, and if we meet certain organizational and operational rules. We believe we will meet these REIT requirements in 2012, and that we have met them for all other periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

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

We recognize tax benefits of income tax positions that are subject to audit only if we believe it is more likely than not that the position would be sustained (including the impact of appeals, as applicable), assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of September 30, 2012, we had no tax benefits that were not recognized.

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to develop, construct, renovate and improve properties, including interest and property taxes incurred during the construction period. We expense internal and external transaction costs associated with acquisitions or dispositions of real estate and equity investments as incurred. We expense 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.

PUBLIC STORAGE
CONDENSED NOTES TO FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

We account for acquisitions of interests in operating self-storage facilities, including the consolidation of entities where we obtain control other than by acquiring interests, under the provisions of Codification Section 805, "Business Combinations." We allocate the net acquisition cost (consisting of the fair value of our existing investment, plus any cash paid to third parties for their interests and the fair value of any liabilities assumed) to the underlying land, buildings, identified intangible assets, and remaining noncontrolling interests based upon their respective individual estimated fair values. Any difference between the net acquisition cost and the estimated fair value of the net tangible and intangible assets acquired is recorded as goodwill.

Other Assets

Other assets primarily consist of prepaid expenses, accounts receivable, and restricted cash.

Accrued and Other Liabilities

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

Cash Equivalents and Marketable Securities

We classify as cash equivalents all highly liquid financial instruments such as money market funds with daily liquidity and a rating of at least AAA by Standard and Poor's, or investment grade (rated A1 by Standard and Poor's) short-term commercial paper or treasury securities with remaining maturities of three months or less at the date of acquisition. Cash and cash equivalents which are restricted from general corporate use are included in other assets.

Commercial paper with a remaining maturity of more than three months when acquired is included in marketable securities. When at acquisition we have the positive intent and ability to hold these securities to maturity (investments that are "Held to Maturity"), the securities are stated at amortized cost and interest is recorded using the effective interest method.

Fair Value Accounting

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

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

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

PUBLIC STORAGE
CONDENSED NOTES TO FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

Currency and Credit Risk

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable, loans receivable, and restricted cash. At September 30, 2012, due primarily to our investment in and loan receivable from Shurgard Europe, our operations and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

Intangible assets are comprised of goodwill, acquired tenants in place, leasehold interests in land, and the “Shurgard” tradename.

Goodwill totaled $174.6 million at September 30, 2012 and December 31, 2011. Goodwill has an indeterminate life and is not amortized.

Acquired tenants in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the tenants in place or the land lease expense to each period. At September 30, 2012, these intangibles have a net book value of $16.7 million ($16.4 million at December 31, 2011). Accumulated amortization totaled $23.2 million at September 30, 2012 ($24.1 million at December 31, 2011), and amortization expense of $7.3 million and $9.2 million was recorded for the nine months ended September 30, 2012 and 2011, respectively. During the nine months ended September 30, 2012, these intangibles were increased by (i) $6.7 million in connection with the acquisition of self-storage facilities (Note 3) and (ii) $0.9 million in connection with the consolidation of three facilities we previously accounted for under the equity method (Note 4).

The “Shurgard” tradename, which is used by Shurgard Europe pursuant to a licensing agreement, has a book value of $18.8 million at September 30, 2012 and December 31, 2011. This asset has an indefinite life and, accordingly, is not amortized.

Evaluation of Asset Impairment

Goodwill impairment is evaluated annually by reporting unit. No impairment of goodwill or the Shurgard trade name was identified in our annual evaluation at December 31, 2011, nor were there any indicators of impairment at September 30, 2012. We evaluate our real estate and property related intangibles for impairment on a quarterly basis. If any indicators of impairment are noted, we estimate future undiscounted cash flows to be received from the use of the asset and, if such future undiscounted cash flows are less than carrying value, an impairment charge is recorded for the excess of carrying value over the assets’ estimated fair value. Long-lived assets which we expect to sell or otherwise dispose of prior to the end of their estimated useful lives are stated at the lower of their net realizable value (estimated fair value less cost to sell) or their carrying value.

PUBLIC STORAGE
CONDENSED NOTES TO FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

Revenue and Expense Recognition

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

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

Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related amounts on our balance sheets are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. The Euro was translated at exchange rates of approximately 1.286 U.S. Dollars per Euro at September 30, 2012 (1.295 at December 31, 2011), and average exchange rates of 1.251 and 1.415 for the three months ended September 30, 2012 and 2011, respectively, and average exchange rates of 1.282 and 1.406 for the nine months ended September 30, 2012 and 2011, 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).

Comprehensive Income (Loss)

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

Discontinued Operations

The net income of real estate facilities or other businesses that have been sold or otherwise disposed of, or that we plan to sell or dispose of within the next year are presented on our statement of income for all periods as “discontinued operations.” In addition to the revenues and expenses of disposed self-storage facilities, discontinued operations includes $11.7 million in gains on disposition of real estate facilities for each of the three and nine month periods ended September 30, 2012 and $1.7 million and $1.4 million in net gains on disposition of real estate facilities for the three and nine months ended September 30, 2011, respectively.

Net Income per Common Share

Net income is first allocated to each of our noncontrolling interests based upon their respective share of the net income of the Subsidiaries, and to our cumulative preferred shares based upon the dividends declared or accumulated during the period.

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When our cumulative preferred shares are called for redemption, additional income is allocated to the security to the extent the redemption cost is greater than the related original net issuance proceeds. These allocations are referred to hereinafter as "EITF D-42 allocations." The remaining net income is allocated to our common shares and our restricted share units based upon the dividends declared during the period, combined with participation rights in undistributed earnings.

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Amounts in thousands)			
Net income allocable to common shareholders from continuing operations and discontinued operations:				
Net income allocable to common shareholders	$ 202,465	$ 117,950	$ 460,151	$ 397,524
Eliminate: Discontinued operations allocable to common shareholders	(11,935)	(1,641)	(12,403)	(1,786)
Net income from continuing operations allocable to common shareholders	$ 190,530	$ 116,309	$ 447,748	$ 395,738
Weighted average common shares and equivalents outstanding:				
Basic weighted average common shares outstanding	170,576	169,728	170,460	169,512

Net effect of dilutive stock options - based on treasury stock method	1,124	1,102	1,098	1,026
Diluted weighted average common shares outstanding	171,700	170,830	171,558	170,538

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3. Real Estate Facilities

Activity in real estate facilities is as follows:

	Nine Months Ended September 30, 2012 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	$ 10,777,576
Capital improvements	58,642
Acquisition of real estate facilities	147,461
Disposition of real estate facilities	(9,275)
Current development	5,265
Impact of foreign exchange rate changes	1,037
Ending balance	10,980,706
Accumulated depreciation:	
Beginning balance	(3,398,379)
Depreciation expense	(256,457)
Disposition of real estate facilities	5,230
Impact of foreign exchange rate changes	(394)
Ending balance	(3,650,000)
Total real estate facilities at September 30, 2012	$ 7,330,706

During the nine months ended September 30, 2012, we acquired 14 operating self-storage facilities (1,148,000 net rentable square feet) for an aggregate cost of $143.8 million of cash. The aggregate cost was allocated $137.1 million to real estate facilities and $6.7 million to intangible assets.

During the nine months ended September 30, 2012, we began to consolidate a limited partnership that we had previously accounted for using the equity method (see Note 4). The three self-storage facilities (183,000 net rentable square feet) owned by this entity, having an aggregate fair market value of $10.4 million, have been added to our operating facilities.

4. Investments in Real Estate Entities

The following tables set forth our investments in the Unconsolidated Real Estate Entities at September 30, 2012 and December 31, 2011, and our equity in earnings of the Unconsolidated Real Estate Entities for the three and nine months ended September 30, 2012 and 2011 (amounts in thousands):

	Investments in Unconsolidated Real Estate Entities at	
	September 30, 2012	December 31, 2011
PSB	$ 316,634	$ 328,508
Shurgard Europe	391,612	375,467
Other Investments	8,155	10,652
Total	$ 716,401	$ 714,627

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	Equity in Earnings of Unconsolidated Real Estate Entities for the Three Months Ended September 30,		Equity in Earnings of Unconsolidated Real Estate Entities for the Nine Months Ended September 30,	
	2012	2011	2012	2011
PSB	$ 2,801	$ 8,117	$ 5,427	$ 22,982
Shurgard Europe	9,442	6,702	23,764	17,471
Other Investments	399	450	1,162	1,302
Total	$ 12,642	$ 15,269	$ 30,353	$ 41,755

During the nine months ended September 30, 2012 and 2011, we received cash distributions from the Unconsolidated Real Estate Entities totaling $33.5 million and $41.9 million, respectively.

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange, and controls an operating partnership. We have an approximate 41% common equity interest in PSB as of September 30, 2012 and December 31, 2011, respectively, comprised of our ownership of 5,801,606 shares of PSB's common stock and 7,305,355 limited partnership units in the operating partnership. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at September 30, 2012 ($66.82 per share of PSB common stock), the shares and units we own had a market value of approximately $875.8 million.

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

	2012	2011
	(Amounts in thousands)	
For the nine months ended September 30:		
Total revenue	$ 257,813	$ 223,411
Costs of operations	(85,126)	(74,589)
Depreciation and amortization	(81,326)	(63,100)
General and administrative	(6,925)	(4,683)
Other items	(15,541)	(433)
Net income	68,895	80,606
Net income allocated to preferred unitholders, preferred shareholders and restricted stock unitholders (a)	(55,815)	(24,366)
	$ 13,080	$ 56,240

Net income allocated to common shareholders and common unitholders

(a) Includes EITF D-42 allocations to preferred equity holders of $17.3 million and from preferred equity holders of $7.4 million, during the nine months ended September 30, 2012 and 2011, respectively, related to PSB’s redemption of preferred securities.

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	September 30, 2012	December 31, 2011
	(Amounts in thousands)	
Total assets (primarily real estate)	$ 2,300,809	$ 2,138,619
Debt	481,448	717,084
Other liabilities	205,906	60,940
Preferred stock and units	885,000	604,129
Common equity and units	728,455	756,466

Investment in Shurgard Europe

For all periods presented, we had a 49% equity investment in Shurgard Europe. On March 2, 2011, Shurgard Europe acquired the 80% interests it did not own in two joint ventures that owned 72 self-storage facilities located in Europe operating under the "Shurgard" name. We and our joint venture partner provided the funding for this acquisition (See Note 5).

Changes in foreign currency exchange rates caused our investment in Shurgard Europe to increase approximately $6.7 million and $0.3 million during the nine months ended September 30, 2012 and 2011, respectively.

We receive interest on the loans due from Shurgard Europe and trademark license fees, of which 49% is classified as equity in earnings of unconsolidated real estate entities and the remaining 51% as interest and other income, as set forth in the following table:

	For the Nine Months Ended September 30, 2012	2011
	(Amounts in thousands)	
Our 49% equity share of:		
Shurgard Europe's net income (loss)	$ 9,444	$ (2,874)
Interest income and trademark license fee	14,320	20,345
Total equity in earnings of Shurgard Europe	$ 23,764	$ 17,471

The following table sets forth selected consolidated financial information of Shurgard Europe. These amounts are based upon all of Shurgard Europe's balances for all periods (including the consolidated operations of 72 self-storage facilities formerly owned by the two joint ventures), rather than our pro rata share, and are based upon our historical acquired book basis.

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	For the Nine Months Ended September 30,	
	2012	2011
	(Amounts in thousands)	
Self-storage and ancillary revenues	$ 182,315	$ 196,004
Self-storage and ancillary cost of operations	(73,616)	(82,051)
Trademark license fee payable to Public Storage	(1,825)	(1,844)
Depreciation and amortization	(46,067)	(54,655)
General and administrative	(10,141)	(9,191)
Interest expense on third party debt	(6,290)	(11,020)
Interest expense on debt due to Public Storage	(27,400)	(39,675)
Gain on disposition of real estate facility	2,208	-
Other	89	(617)
Net income (loss)	19,273	(3,049)
Net income allocated to noncontrolling equity interests	-	(2,816)
Net income (loss) allocated to Shurgard Europe	$ 19,273	$ (5,865)
Average exchange rates Euro to the U.S. Dollar	1.282	1.406

	September 30, 2012	December 31, 2011
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	$ 1,391,789	$ 1,430,307
Total debt to third parties	221,283	280,065
Total debt to Public Storage	399,794	402,693
Other liabilities	77,917	85,917
Equity	692,795	661,632
Exchange rate of Euro to U.S. Dollar	1.286	1.295

Other Investments

At September 30, 2012, the "Other Investments" include an aggregate common equity ownership of approximately 26% in various limited partnerships that collectively own 14 self-storage facilities.

During the nine months ended September 30, 2012, we began to consolidate a limited partnership due to a change in control. As a result, we recorded a gain of $1.3 million representing the difference between the aggregate fair value of our existing investment ($3.1 million) and the book value ($1.8 million). The $3.1 million fair value of our existing investment was allocated to real estate facilities ($10.4 million), intangible assets ($0.9 million), and permanent noncontrolling interests ($8.2 million).

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

	2012	2011
	(Amounts in thousands)	
For the nine months ended September 30:		
Total revenue	$ 10,128	$ 9,801
Cost of operations and other expenses	(3,771)	(3,778)
Depreciation and amortization	(1,586)	(1,700)
Net income	$ 4,771	$ 4,323

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	September 30, 2012	December 31, 2011
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	$ 28,195	$ 29,510
Total accrued and other liabilities	2,008	1,396
Total Partners' equity	26,187	28,114

5. Loans Receivable from Unconsolidated Real Estate Entities

As of September 30, 2012 and December 31, 2011, we had a Euro-denominated loan receivable from Shurgard Europe with a balance of €311.0 million at both periods ($399.8 million at September 30, 2012 and $402.7 million at December 31, 2011), which bears interest at a fixed rate of 9.0% per annum and matures February 15, 2015. Because we expect repayment of this loan in the foreseeable future, foreign exchange rate gains or losses due to changes in exchange rates between the Euro and the U.S. Dollar are recognized in income, under "foreign currency gain." We have received a total of €80.9 million in principal repayments on this loan since its inception on March 31, 2008.

On February 9, 2011, we loaned PSB $121.0 million. The loan had a six-month term and bore interest at a rate of three-month LIBOR plus 0.85% (1.13% per annum for the term of the loan). For the three and nine months ended September 30, 2011, we recorded interest income of approximately $0.1 million and $0.7 million, respectively, related to the loan. The loan was repaid in 2011.

On February 28, 2011, we provided bridge financing to Shurgard Europe totaling $237.9 million, which it used to acquire its partner's 80% interests in two affiliated joint ventures on March 2, 2011. This loan bore interest at a fixed rate of 7.0% per annum and was denominated in U.S. Dollars. On June 15, 2011, our joint venture partner in Shurgard Europe effectively purchased 51% of the loan from us for $121.3 million and then the entire loan balance was effectively exchanged for an equity interest in Shurgard Europe.

For the three and nine months ended September 30, 2012, we recorded interest income (representing 51% of the aggregate interest received; see Note 4) on the Euro-denominated loan to Shurgard Europe of approximately $4.6 million and $14.0 million, respectively, as compared to $5.9 million and $20.2 million for the same periods in 2011. During the nine months ended September 30, 2011, we received $1.5 million in other income from our joint venture partner for our interim funding of its 51% pro rata share of Shurgard Europe's cost to acquire the interests.

We believe that the interest rate on the loan to Shurgard Europe approximates the market rate for loans with similar credit characteristics and tenor, and that the fair value of the loan approximates book value. In evaluating the fair value and appropriate market rate of the loan, we considered that Shurgard Europe has sufficient operating cash flow, liquidity and collateral, and we have sufficient creditor rights such that credit risk is mitigated. The characteristics of the loan to Shurgard Europe and comparative metrics utilized in our evaluation represent significant unobservable inputs, which are "Level 3" inputs as the term is utilized in Codification Section 820-10-35-52.

6. Line of Credit and Notes Payable

We have a $300 million revolving line of credit (the “Credit Facility”) that expires on March 21, 2017. Amounts drawn on the Credit Facility bear an annual interest rate ranging from LIBOR plus 0.925% to LIBOR plus 1.850% depending on our credit ratings (LIBOR plus 0.950% at September 30, 2012). In addition, we are required to pay a quarterly facility fee ranging from 0.125% per annum to 0.400% per annum depending on our credit ratings (0.125% per annum at September 30, 2012). We had no outstanding borrowings on our Credit Facility at September 30, 2012 or at November 8, 2012. We had undrawn standby letters of credit, which reduce our borrowing capacity with respect to the Credit Facility by the amount of the letters of credit, totaling $15.3 million at September 30, 2012 ($18.4 million at December 31, 2011).

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The carrying amounts of our notes payable at September 30, 2012 and December 31, 2011 consist of the following (dollar amounts in thousands):

	September 30, 2012	December 31, 2011
Unsecured Notes Payable:		
5.9% effective and stated note rate, interest only and payable semi-annually, matures in March 2013	$ 186,460	$ 186,460
Secured Notes Payable:		
5.1% average effective rate, secured by 67 facilities with a net book value of approximately $373 million at September 30, 2012 and stated note rates between 4.95% and 7.43%, maturing at varying dates between January 2013 and September 2028 (carrying amount includes $1,425 of unamortized premium at September 30, 2012 and $2,665 at December 31, 2011)	161,483	211,854
Total notes payable	$ 347,943	$ 398,314

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

The notes payable and Credit Facility have various customary restrictive covenants, all of which we were in compliance with at September 30, 2012.

At September 30, 2012, approximate principal maturities of our notes payable are as follows (amounts in thousands):

	Unsecured Notes Payable	Secured Notes Payable	Total
2012 (remainder)	$ -	$ 1,799	$ 1,799
2013	186,460	78,391	264,851
2014	-	35,127	35,127
2015	-	30,009	30,009
2016	-	10,065	10,065

Thereafter	-	6,092	6,092
	$ 186,460	$ 161,483	$ 347,943
Weighted average effective rate	5.9 %	5.1 %	5.5 %

Cash paid for interest totaled $16.6 million and $21.5 million for the nine months ended September 30, 2012 and 2011, respectively. No interest was capitalized for the nine months ended September 30, 2012 ($0.3 million for the same period in 2011).

7. Noncontrolling Interests

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

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Redeemable Noncontrolling Interests

At December 31, 2011, the Redeemable Noncontrolling Interests represented ownership interests in Subsidiaries that own 14 self-storage facilities. During the three months ended March 31, 2012, we acquired all the outstanding Redeemable Noncontrolling Interests for $19.9 million in cash, of which $11.9 million was recorded as a reduction to redeemable noncontrolling interests and $8.0 million was recorded as a reduction to paid-in capital. During the three months ended September 30, 2011, we allocated a total of $0.2 million of income to these interests. During the nine months ended September 30, 2012 and 2011, we allocated a total of $0.2 million and $0.7 million, respectively, of income to these interests and paid distributions to these interests totaling $0.7 million and $0.9 million during the nine months ended September 30, 2012 and 2011, respectively.

Permanent Noncontrolling Interests

At September 30, 2012, the Permanent Noncontrolling Interests have ownership interests in Subsidiaries that own 15 self-storage facilities and own 231,978 partnership units (the "Convertible Partnership Units") in a subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder. During the three and nine months ended September 30, 2012, we allocated a total of $0.9 million and $2.3 million, respectively, in income to our Permanent Noncontrolling Interests. During the same periods in 2011, we allocated a total of $3.1 million and $11.6 million, respectively, in income to our Permanent Noncontrolling Interests. During the nine months ended September 30, 2012 and 2011, we paid $3.6 million and $11.4 million, respectively, in distributions to our Permanent Noncontrolling Interests.

As described more fully in Note 4, we increased Permanent Noncontrolling Interests during the nine months ended September 30, 2012 a total of $8.2 million in connection with consolidating a partnership.

During the nine months ended September 30, 2012, we acquired additional interests in the Subsidiaries for $1.0 million in cash, of which $0.1 million was recorded as a reduction to permanent noncontrolling interests and the remainder as a reduction to paid-in capital.

During the year ended December 31, 2011, we acquired Permanent Noncontrolling Interests for an aggregate of $175.5 million in cash and our common shares.

8. Public Storage Shareholders' Equity

Cumulative Preferred Shares

At September 30, 2012 and December 31, 2011, we had the following series of Cumulative Preferred Shares outstanding:

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			At September 30, 2012		At December 31, 2011	
Series	Earliest Redemption Date	Dividend Rate	Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
			(Dollar amounts in thousands)			
Series W	10/6/08	6.500 %	-	$ -	5,300	$ 132,500
Series X	11/13/08	6.450 %	-	-	4,800	120,000
Series Y	1/2/09	6.850 %	-	-	350,900	8,772
Series Z	3/5/09	6.250 %	4,500	112,500	4,500	112,500
Series A	3/31/09	6.125 %	4,600	115,000	4,600	115,000
Series C	9/13/09	6.600 %	-	-	4,425	110,625
Series D	2/28/10	6.180 %	5,400	135,000	5,400	135,000
Series E	4/27/10	6.750 %	-	-	5,650	141,250
Series F	8/23/10	6.450 %	-	-	9,893	247,325
Series L	10/20/11	6.750 %	-	-	8,267	206,665
Series M	1/9/12	6.625 %	-	-	19,065	476,634
Series N	7/2/12	7.000 %	-	-	6,900	172,500
Series O	4/15/15	6.875 %	5,800	145,000	5,800	145,000
Series P	10/7/15	6.500 %	5,000	125,000	5,000	125,000
Series Q	4/14/16	6.500 %	15,000	375,000	15,000	375,000
Series R	7/26/16	6.350 %	19,500	487,500	19,500	487,500
Series S	1/12/17	5.900 %	18,400	460,000	-	-
Series T	3/13/17	5.750 %	18,500	462,500	-	-
Series U	6/15/17	5.625 %	11,500	287,500	-	-
Series V	9/20/17	5.375 %	19,800	495,000	-	-
Total Cumulative Preferred Shares			128,000	$ 3,200,000	475,000	$ 3,111,271

The holders of our Cumulative Preferred Shares have general preference rights with respect to liquidation and quarterly distributions. Except under certain conditions and as noted below, holders of the Cumulative Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our Board of Trustees until the arrearage has been cured. At September 30, 2012, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the Cumulative 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 Cumulative Preferred Shares will be redeemable, at the option of the Company, in whole or in part, at $25.00 per share (or depositary share as the case may be), plus accrued and unpaid dividends. Holders of the Cumulative Preferred Shares do not have the right to require the Company to redeem such shares.

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

During the first nine months of 2012, we issued an aggregate 68.2 million depositary shares, each representing 1/1,000 of our of our Series S, Series T, Series U, and Series V Cumulative Preferred Shares, at an issuance price of $25 per depositary share, for a total of $1.7 billion in gross proceeds, and we incurred an aggregate of $53.5 million in issuance costs.

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In the nine months ended September 30, 2012, we redeemed our Series C, Series E, Series L, Series M, Series N, Series W and Series Y Cumulative Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, was $1.2 billion.

In the three months ended September 30, 2012, we called for redemption our Series F and Series X Cumulative Preferred Shares. The aggregate liquidation value (at par) of $367.3 million was reclassified as a liability at September 30, 2012. The Series F and Series X Cumulative Preferred Shares were redeemed in October 2012.

In April and May 2011, we issued 15.0 million depositary shares each representing 1/1,000 of our 6.500% Cumulative Preferred Shares, Series Q for gross proceeds of $375.0 million, and we incurred $11.3 million in issuance costs.

In May and June 2011, we redeemed our Series I Cumulative Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, was $517.5 million.

In July 2011, we issued 19.5 million depositary shares each representing 1/1,000 of our 6.350% Cumulative Preferred Shares, Series R for gross proceeds of $487.5 million, and we incurred $15.5 million in issuance costs.

In August 2011, we redeemed our Series K Cumulative Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, was $424.8 million.

On September 30, 2011, we redeemed our Series G Cumulative Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, was $100.0 million.

We recorded a $11.4 million and a $49.7 million EITF D-42 allocation of income from our common shareholders to the holders of our Cumulative Preferred Shares in the three and nine months ended September 30, 2012, respectively, in connection with our preferred redemption activities ($16.2 million and $32.1 million for the three and nine months ended September 30, 2011, respectively).

Dividends

Common share dividends, including amounts paid to our restricted share unitholders, totaled $188.3 million ($1.10 per share) and $162.0 million ($0.95 per share), for the three months ended September 30, 2012 and 2011, respectively, and $564.7 million ($3.30 per share) and $459.3 million ($2.70 per share), for the nine months ended September 30, 2012 and 2011, respectively. Preferred share dividends totaled $49.3 million and $56.7 million for the three months ended September 30, 2012 and 2011, respectively, and $156.3 million and $172.9 million for the nine months ended September 30, 2012 and 2011, respectively.

9. Related Party Transactions

The Hughes Family owns approximately 16.0% of our common shares outstanding at September 30, 2012.

The Hughes Family has ownership interests in, and operates, approximately 53 self-storage facilities in Canada ("PS Canada") using the "Public Storage" brand name pursuant to a non-exclusive, royalty-free trademark license agreement with the Company. We currently do not own any interests in these facilities nor do we own any facilities in Canada. We have a right of first refusal to acquire the stock or assets of the corporation that manages the 53 self-storage facilities in Canada, if the Hughes Family or the corporation agrees to sell them. However, we have no interest in the operations of this corporation, we have no right to acquire this stock or assets unless the Hughes Family decides to sell and we receive no benefit from the profits and increases in value of the Canadian self-storage facilities.

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We reinsure risks relating to loss of goods stored by tenants in the self-storage facilities in Canada. During each of the nine month periods ended September 30, 2012 and 2011, we received $0.4 million in reinsurance premiums attributable to the Canadian facilities. Since our right to provide tenant reinsurance to the Canadian facilities may be qualified, there is no assurance that these premiums will continue.

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

In August 2011, we acquired through mergers the interests we did not own in five limited partnerships for $54.6 million paid to the Hughes Family and $100.8 million paid to the other third-party limited partners (the “Other Partners”). In separate transactions in June and August 2011, we acquired interests in other entities from the Hughes Family for $13.5 million in cash. All amounts paid were based upon independent property appraisals and the liquidation terms of the partnerships. A special committee of our Board of Trustees unanimously determined that the transactions were fair and advisable to and in the best interests of Public Storage’s shareholders (other than the Hughes Family) and to the Other Partners, and an investment banking firm appointed by the special committee concluded that the amounts paid to the Other Partners was fair to them, from a financial point of view. Mr. Hughes, a former trustee, is indemnified for any litigation arising from these transactions. Mr. Hughes, who was co-general partner with Public Storage in certain of these entities, has withdrawn as general partner from each entity.

10. Share-Based Compensation

Under various share-based compensation plans, the Company can grant 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. The terms of these grants are established by an authorized committee of our Board of Trustees.

Stock options and RSUs are considered “granted” and “outstanding” (legal grant date notwithstanding) 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 in accordance with the Company’s share grant approval procedures, iii) the recipient begins to be benefited from or adversely 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 generally begins on the grant date and ends on the earlier of the vesting date or the date when the recipient would not forfeit unvested grants upon termination. The service period begins on the date services begin to be provided, rather than on the grant date, when i) all the requirements of a grant have been met, except that the Company and the recipient have not reached a mutual understanding of the key terms of the award, and ii) no future services are required following the grant date.

We have elected to use the straight-line attribution method with respect to awards that are earned solely based upon the passage of time and continued employment. Awards with performance conditions are amortized using the accelerated attribution method, with each vesting amortized separately over the individual vesting period. The employer portion of taxes is expensed as incurred.

Stock Options

Stock option exercise prices are equal to the closing trading price of our common shares on the date they are legally granted, vest over a three to five-year period, and expire ten years after the legal grant date. We use the Black-Scholes option valuation model to estimate the fair value of our stock options.

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

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For the three and nine months period ended September 30, 2012, we recorded $0.7 million and $2.0 million, respectively, in compensation expense related to stock options, as compared to $0.8 million and $2.3 million for the same periods in 2011.

During the nine months ended September 30, 2012, 35,000 stock options were granted, 304,389 options were exercised and 31,400 options were forfeited. A total of 2,290,277 stock options were outstanding at September 30, 2012 (2,591,066 at December 31, 2011).

Restricted Share Units

RSUs vest ratably over a three to eight-year period from the date they are legally granted. The grantee receives additional compensation for each outstanding RSU, classified as dividends paid, equal to the per-share dividends received by common shareholders. When RSUs are forfeited, any dividends previously paid on such forfeited RSUs are expensed. When RSUs vest, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax deposits, equal to the vesting-date fair value of the withheld shares, made by the Company to satisfy the employee'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, 2012, 150,400 RSUs were granted, 60,150 RSUs were forfeited and 144,472 RSUs vested. This vesting resulted in the issuance of 91,366 common shares. In addition, tax deposits totaling $6.9 million were made on behalf of employees in exchange for 53,106 common shares withheld upon vesting.

RSUs outstanding at September 30, 2012 and December 31, 2011 were 647,277 and 701,499, respectively. A total of $6.4 million and $16.4 million in RSU expense (including employer taxes incurred upon vesting) was recorded for the three and nine months ended September 30, 2012, respectively, as compared to $5.4 million and $15.7 million for the same periods in 2011.

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

11. Segment Information

Our reportable segments reflect the significant components of our operations that are evaluated separately by our chief operating decision maker and have discrete financial information available. Our segments are organized based upon differences in the nature of the underlying products, services, and whether the operation is located in the U.S. or outside the U.S. In making resource allocation decisions, our chief operating decision maker reviews the net income from continuing operations of each reportable segment included in the tables below, excluding the impact of depreciation and amortization, gains or losses on disposition of real estate facilities, and real estate impairment charges. The amounts for each reportable segment included in the tables below are in conformity with GAAP and our significant accounting policies as denoted in Note 2, and exclude ancillary revenues and expenses, interest income (other than from Loans Receivable from Unconsolidated Real Estate Entities), interest expense, general and administrative expense, and gains and losses on the early repayment of debt, none of which can be allocated to any reportable segment. Our chief operating decision maker does not consider the book value of assets in making resource allocation decisions.

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

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Domestic Self-Storage Segment

The Domestic Self-Storage Segment includes the operations of the 2,055 self-storage facilities owned by the Company and the Subsidiaries, as well as our equity share of the Other Investments. For all periods presented, substantially all of our real estate facilities, goodwill and other intangible assets, other assets, and accrued and other liabilities are associated with the Domestic Self-Storage Segment.

European Self-Storage Segment

The European Self-Storage segment comprises our interest in Shurgard Europe, which has self-storage operations in seven western European countries. It has a separate management team that determines the strategic direction for this segment under the direction of our chief operating decision maker and our joint venture partner which owns a 51% equity interest in Shurgard Europe. The European Self-Storage segment presentation includes our equity share of Shurgard Europe's operations, the interest and other income received from Shurgard Europe, as well as foreign currency exchange gains and losses that are attributable to Shurgard Europe. Our balance sheet includes an investment in Shurgard Europe (Note 4) and a loan receivable from Shurgard Europe (Note 5).

Commercial Segment

The Commercial segment comprises our investment in PSB, a self-managed REIT with a separate management team that makes its financing, capital allocation and other significant decisions. The Commercial segment also includes our direct interest in certain commercial facilities, substantially all of which are managed by PSB. The Commercial segment presentation includes our equity earnings and interest income from PSB, as well as the revenues and expenses of our commercial facilities. At September 30, 2012, the assets of the Commercial segment are comprised principally of our investment in PSB (Note 4).

Presentation of Segment Information

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

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	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
			(Amounts in thousands)		
Revenues:					
Self-storage facilities	$ 440,918	$ -	$ -	$ -	$ 440,918
Ancillary operations	-	-	3,457	28,556	32,013
	440,918	-	3,457	28,556	472,931
Expenses:					
Self-storage facilities	127,367	-	-	-	127,367
Ancillary operations	-	-	1,100	8,757	9,857
Depreciation and amortization	89,194	-	703	-	89,897
General and administrative	-	-	-	15,298	15,298
	216,561	-	1,803	24,055	242,419
Operating income	224,357	-	1,654	4,501	230,512
Interest and other income	-	4,890	-	554	5,444
Interest expense	-	-	-	(4,926)	(4,926)
Equity in earnings of unconsolidated real estate entities	399	9,442	2,801	-	12,642
Foreign currency exchange gain	-	9,019	-	-	9,019
Gain on real estate sales	193	-	-	-	193
Income from continuing operations	224,949	23,351	4,455	129	252,884
Discontinued operations	11,935	-	-	-	11,935
Net income	$ 236,884	$ 23,351	$ 4,455	$ 129	$ 264,819

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For the three months ended September 30, 2011

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
	(Amounts in thousands)				
Revenues:					
Self-storage facilities	$ 415,552	$ -	$ -	$ -	$ 415,552
Ancillary operations	-	-	3,590	26,421	30,011
	415,552	-	3,590	26,421	445,563
Expenses:					
Self-storage cost of operations	128,787	-	-	-	128,787
Ancillary cost of operations	-	-	1,381	8,412	9,793
Depreciation and amortization	90,162	-	659	-	90,821
General and administrative	-	-	-	14,116	14,116
Asset impairment charges	297	-	-	1,889	2,186
	219,246	-	2,040	24,417	245,703
Operating income	196,306	-	1,550	2,004	199,860
Interest and other income	-	5,979	141	755	6,875
Interest expense	-	-	-	(5,862)	(5,862)
Equity in earnings of unconsolidated real estate entities	450	6,702	8,117	-	15,269
Foreign currency exchange loss	-	(28,253)	-	-	(28,253)
Gain on real estate sales and debt retirement, net	3,135	-	-	1,848	4,983
Income (loss) from continuing operations	199,891	(15,572)	9,808	(1,255)	192,872
Discontinued operations	2,021	-	-	(380)	1,641
Net income (loss)	$ 201,912	$ (15,572)	$ 9,808	$ (1,635)	$ 194,513

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For the nine months ended September 30, 2012

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
	(Amounts in thousands)				
Revenues:					
Self-storage facilities	$ 1,268,256	$ -	$ -	$ -	$ 1,268,256
Ancillary operations	-	-	10,596	82,426	93,022
	1,268,256	-	10,596	82,426	1,361,278
Expenses:					
Self-storage cost of operations	395,381	-	-	-	395,381
Ancillary cost of operations	-	-	3,620	25,536	29,156
Depreciation and amortization	263,109	-	2,086	-	265,195
General and administrative	-	-	-	44,117	44,117
	658,490	-	5,706	69,653	733,849
Operating income	609,766	-	4,890	12,773	627,429
Interest and other income	-	14,905	-	1,734	16,639
Interest expense	-	-	-	(15,327)	(15,327)
Equity in earnings of unconsolidated real estate entities	1,162	23,764	5,427	-	30,353
Foreign currency exchange loss	-	(2,481)	-	-	(2,481)
Gain on real estate sales	1,456	-	-	-	1,456
Income (loss) from continuing operations	612,384	36,188	10,317	(820)	658,069
Discontinued operations	12,403	-	-	-	12,403
Net income (loss)	$ 624,787	$ 36,188	$ 10,317	$ (820)	$ 670,472

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For the nine months ended September 30, 2011

	Domestic Self-Storage	European Self-Storage	Commercial	Other Items Not Allocated to Segments	Total
	(Amounts in thousands)				
Revenues:					
Self-storage facilities	$ 1,194,753	$ -	$ -	$ -	$ 1,194,753
Ancillary operations	-	-	11,010	74,807	85,817
	1,194,753	-	11,010	74,807	1,280,570
Expenses:					
Self-storage cost of operations	393,446	-	-	-	393,446
Ancillary cost of operations	-	-	4,247	24,057	28,304
Depreciation and amortization	266,267	-	1,987	-	268,254
General and administrative	-	-	-	40,944	40,944
Asset impairment charges	297	-	-	1,889	2,186
	660,010	-	6,234	66,890	733,134
Operating income	534,743	-	4,776	7,917	547,436
Interest and other income	-	22,636	664	1,918	25,218
Interest expense	-	-	-	(18,779)	(18,779)
Equity in earnings of unconsolidated real estate entities	1,302	17,471	22,982	-	41,755
Foreign currency exchange gain	-	13,495	-	-	13,495
Gain on real estate sales and debt retirement, net	3,263	-	-	1,848	5,111
Income (loss) from continuing operations	539,308	53,602	28,422	(7,096)	614,236
Discontinued operations	2,166	-	-	(380)	1,786

Net income (loss)	$ 541,474	$ 53,602	$ 28,422	$ (7,476)	$ 616,022

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12. Commitments and Contingencies

Contingent Losses

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

Insurance and Loss Exposure

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

Our tenant insurance program reinsures a program that provides insurance to certificate holders against claims for property losses due to specific named perils (earthquakes are not covered by these policies) to goods stored by tenants at our self-storage facilities for individual limits up to a maximum of $5,000. We have third-party insurance coverage for claims paid exceeding $5.0 million resulting from any one individual event, to a limit of $15.0 million. At September 30, 2012, there were approximately 700,000 certificate holders held by our self-storage tenants participating in this program, representing aggregate coverage of approximately $1.6 billion. We rely on a third-party insurance company to provide the insurance and are subject to licensing requirements and regulations in several states.

13. Subsequent Events

During October 2012, we acquired three self-storage properties located in Texas, Arizona and New York (336,000 net rentable square feet) for an aggregate purchase price of $37.3 million in cash.

As of November 8, 2012, we have acquired or are under contract to acquire (subject to contingencies) three additional self-storage facilities (two located in Georgia and one in California) with 291,000 net rentable square feet, for approximately $26.7 million in cash.

On November 8, 2012, we announced that we will call for redemption our 6.250% Series Z, 6.125% Series A, and 6.180% Series D Cumulative Preferred Shares, at par, totaling $362.5 million. These securities will be redeemed on December 27, 2012. We expect to incur EITF D-42 allocations to the preferred shareholders totaling approximately $12.0 million in the three months ending December 31, 2012 in connection with these redemptions.

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

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

Forward Looking Statements: This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. 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," "will," "would," "should," "may," "estimates" and similar expressions. These forward-looking statements involve known and unknown 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. As a result, 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. We caution you not to place undue reliance on forward-looking statements, which 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.

Factors and risks that may impact our future results and performance include, but are not limited to, those described in Part I, Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 27, 2012 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, potential liability for environmental contamination, natural disasters, and adverse changes in laws and regulations governing property tax, real estate and zoning;
- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our tenants;
- the impact of competition from new and existing self-storage and commercial facilities and other storage alternatives;
- difficulties in our ability to successfully evaluate, finance, integrate into our existing operations, and manage acquired and developed properties;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations and local and global economic uncertainty that could adversely affect our earnings and cash flows;
- risks related to our participation in joint ventures;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing environmental, tax and tenant insurance matters and real estate investment trusts ("REITs"), and risks related to the impact of new laws and regulations;
- risk of increased tax expense associated either with a possible failure by us to qualify as a REIT, or with challenges to intercompany transactions with our taxable REIT subsidiaries;
- disruptions or shutdowns of our automated processes and systems or breaches of our data security;

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- difficulties in raising capital at a reasonable cost; and
- economic uncertainty due to the impact of war or terrorism.

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 this document, except where required by law. Accordingly, you should use caution in relying on forward-looking statements to anticipate future results.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our financial statements, which have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"). The preparation of our financial statements and related disclosures in conformity with GAAP and our discussion and analysis of our financial condition and results of operations requires management to make judgments, assumptions and estimates that affect the amounts reported in our financial statements and accompanying notes. The notes to our September 30, 2012 financial statements, primarily Note 2, summarize the significant accounting policies and methods used in the preparation of our financial statements and related disclosures.

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. 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 have met these REIT requirements in 2011 and for all other periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

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

In addition, our taxable REIT subsidiaries are taxable as regular corporations. To the extent that amounts paid to us by our taxable REIT subsidiaries are determined by the taxing authorities to be in excess of amounts that would be paid under similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess payments. If we became subject to such a penalty tax, our net income could be materially overstated from our current estimates.

Impairment of Long-Lived Assets: Substantially all of our assets, consisting primarily of real estate, are long-lived assets. The evaluation of long-lived assets for impairment involves identification of indicators of impairment, projections of future operating cash flows, and determining fair values, all of which require significant judgment and subjectivity. Others could come to materially different conclusions than we did regarding impairment. In addition, we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in assumptions as to cash flows or fair values, could have a material adverse impact on our financial condition and results of operations.

Accruals for Operating Expenses: Certain of our expenses are estimated based upon assumptions regarding past trends and future expectations, such as losses for workers compensation, employee health plans, and estimated claims for our tenant reinsurance program. Our property tax expense represents one of our largest operating expenses and has significant estimated components. Most notably, in certain jurisdictions we do not receive tax bills for the current fiscal year until after our earnings are finalized, and as a result, we must estimate tax expense based upon anticipated implementation of regulations and trends. If these estimates and assumptions with respect to these operating expenses were incorrect, our expenses could be misstated.

Accruals for Contingencies: We are exposed to business and legal liability risks with respect to events that have occurred, but in accordance with GAAP, we have not accrued for certain potential liabilities because the loss is either not probable or not reasonably estimable or because we are not aware of the event. We could in the future accrue additional amounts for such liabilities, due to future events and the results of further investigation or litigation. Such accruals could have a material adverse impact on our financial condition or results of operations.

Valuation of Real Estate and Intangible Assets Acquired: In reporting the acquisition of operating self-storage facilities in our financial statements, we must estimate the fair value of the land, buildings, and intangible assets acquired in these transactions. These estimates are based upon many assumptions, subject to a significant degree of judgment, including estimating discount rates, replacement costs of land and buildings, future cash flows from the tenant base in place at the time of the acquisition, and future revenues to be earned and expenses to be incurred with respect to acquired properties. We believe that the assumptions we used are reasonable, however, others could come to materially different conclusions as to the estimated values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, as well as the amounts included on our balance sheets for real estate and intangible assets.

Overview

Our principal business activities include the acquisition, development, ownership and operation of self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use. We are the largest owner of self-storage facilities in the U.S., which represents our Domestic Self-Storage segment. A large portion of management time is focused on maximizing revenues and managing expenses at our self-storage facilities, which is the primary driver of our net income and cash flow from operations and represent 93% of our revenues for the nine months ended September 30, 2012.

Most of our facilities compete with other well-managed and well-located competitors. In addition, we are subject to general economic conditions, particularly conditions that affect the spending habits of consumers and moving trends. We believe that we possess several business characteristics, as described in our Form 10-K for the year ended December 31, 2011, which enable us to compete effectively, including our centralized information networks, national telephone and online reservation system, the brand name “Public Storage,” and our economies of scale.

The remainder of our operations is comprised of our European Self-Storage segment through our investment in Shurgard Europe, our Commercial segment primarily through our investment in PS Business Parks, Inc. (“PSB”), and the operations not allocated to any segment, each of which is described in Note 11 to our September 30, 2012 financial statements.

Our ability to effectively deploy capital to expand our asset base is an important component of our long-term growth strategy. Since the beginning of 2010, we have acquired 67 self-storage facilities for approximately $464 million, noncontrolling interests in subsidiaries owning self-storage facilities for $196 million, and we invested $117 million in Shurgard Europe which it used to acquire interests in self-storage facilities.

We believe that there may be opportunities to acquire additional self-storage facilities from third parties in the remainder of 2012. There is significant competition for facilities marketed in many of the geographic locations we find attractive. There can be no assurance that we will be able to acquire additional facilities.

We have a nominal pipeline of identified and committed development projects at September 30, 2012. In part due to the significant increase in prices being paid for existing facilities, in many cases well above replacement cost, we have expanded our new property development efforts and we expect to increase our level of development activities over the next 12 to 18 months. However, we believe that there are limitations on the level of investment that we can undertake. Such limitations include limited attractively located land parcels available at a reasonable cost, extensive and substantial permitting requirements, limitations on self-storage development in certain local municipalities, and our desire to obtain an attractive return on our investment when considering the 36 to 48 months that it takes to fill up newly-developed self-storage space with tenants and other associated risks of development. As a result, we do not expect such activities to have a significant impact upon our liquidity or earnings in the next 12 to 18 months.

Other investments we have made in the past, and may make in the future, include i) further investment in Shurgard Europe, ii) further investment in PSB, and iii) the early retirement of debt or redemption of preferred securities. There can be no assurance that these other investment alternatives will be attractive in the long-term, or will even be available as investment alternatives.

We believe that we are not dependent upon raising capital to fund our operations or meet our obligations, due to our low levels of debt and significant cash from operations (see "Liquidity and Capital Resources" below). However, access to capital is important to growing our property portfolio. We choose between the issuance of common and preferred securities based upon the relative cost of capital. For at least the last ten years, we have raised cash proceeds for growth and other corporate purposes primarily through the issuance of preferred securities, while we have issued common equity only in connection with mergers and the acquisition of interests in real estate entities. Our ability to raise capital with favorable terms is dependent upon capital market conditions. When market conditions are favorable, we have generally been able to raise capital as necessary; however, there can be no assurance that future market conditions will permit us to do so. During the year ended December 31, 2011, we issued approximately $863 million of preferred securities. During the nine months ended September 30, 2012, we issued another $1.7 billion of preferred securities, including $495.0 million of preferred securities issued most recently at a coupon of 5.375%.

At September 30, 2012, we had approximately $536 million of cash. In October 2012, we redeemed our Series F and Series X Cumulative Preferred Shares at par for approximately $367 million, and we acquired three self-storage facilities for approximately $37.3 million in cash. As of November 8, 2012, we were under contract to acquire three self-storage facilities for approximately $26.7 million in cash, subject to contingencies. On December 27, 2012, we will redeem our 6.250% Series Z, 6.125% Series A, and 6.180% Series D Cumulative Preferred Shares, at par, totaling $362.5 million. We expect to fund these activities with cash on hand, the issuance of equity securities, or borrowings on our line of credit. We have no other significant commitments until 2013, when $264.9 million of existing debt comes due.

Results of Operations

Operating Results for the Three Months Ended September 30, 2012 and 2011

For the three months ended September 30, 2012, net income allocable to our common shareholders was $202.5 million or $1.18 per diluted common share compared to $118.0 million or $0.69 per diluted common share for the same period in 2011, representing an increase of $84.5 million or $0.49 per diluted common share. This increase is due to (i) a $37.3 million increase resulting from foreign currency exchange gains and losses incurred in translating the value of our Euro-denominated loan receivable from Shurgard Europe into a U.S. Dollar equivalent, (ii) improved property operations and (iii) reduced allocations of income to our preferred shareholders due primarily to lower average coupon rates and lower average outstanding preferred shares.

Operating Results for the Nine Months Ended September 30, 2012 and 2011

For the nine months ended September 30, 2012, net income allocable to our common shareholders was $460.2 million or $2.68 per diluted common share, compared to $397.5 million or $2.33 per diluted common share for the same period in 2011, representing an increase of $62.7 million or $0.35 per diluted common share. This increase is due to (i) improved property operations and (ii) a $16.7 million reduction in allocations of net income to preferred shareholders based upon distributions paid due to lower average coupon rates and lower average outstanding preferred shares, offset partially by (iii) a $27.8 million decrease in earnings due to the application of EITF D-42 to our and PSB's redemptions of preferred securities, and (iv) a $16.0 million decrease due to foreign exchange gains and losses in translating our Euro-denominated loan receivable from Shurgard Europe into U.S. Dollars.

Funds from Operations

For the three months ended September 30, 2012, funds from operations ("FFO") was $1.73 per diluted common share as compared to $1.29 for the same period in 2011, representing an increase of 34.1%.

For the three months ended September 30, 2012, FFO was impacted by a foreign currency exchange gain of $9.0 million (compared to a $28.3 million loss for the same period in 2011) and a $12.9 million charge in applying EITF D-42 due to redemptions of preferred securities, including our equity share of PSB (compared to a $16.2 million charge for the same period in 2011).

For the nine months ended September 30, 2012, FFO was $4.46 per diluted common share as compared to $4.17 for the same period in 2011, representing an increase of 7.0%.

For the nine months ended September 30, 2012, FFO was impacted by a foreign currency exchange loss of $2.5 million (compared to a $13.5 million gain for the same period in 2011) and a $56.9 million charge in applying EITF D-42 due to redemptions of preferred securities, including our equity share of PSB (compared to a $29.1 million net charge for the same period in 2011).

Our FFO was also impacted by other items such as impairment charges with respect to non-real estate assets, our equity share of PSB's lease termination benefits, and costs associated with the acquisition of real estate facilities, which reduced FFO per diluted common share $0.02 in the nine months ended September 30, 2012, and $0.01 in each of the three and nine months ended September 30, 2011.

The following table provides a summary of the per-share impact of the items noted above (unaudited):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
FFO per diluted common share prior to adjustments for the following items	$1.76	$1.56	12.8 %	$4.82	$4.27	12.9 %
Foreign currency exchange gain (loss)	0.05	(0.17)		(0.01)	0.08	
Application of EITF D-42	(0.08)	(0.09)		(0.33)	(0.17)	
Other items, net	-	(0.01)		(0.02)	(0.01)	
FFO per diluted common share, as reported	$1.73	$1.29	34.1 %	$4.46	$4.17	7.0 %

FFO is a term defined by the National Association of Real Estate Investment Trusts. It is generally defined as net income before depreciation, gains and losses, and impairment charges with respect to real estate assets. FFO is presented because management and many analysts consider FFO to be one measure of the performance of real estate companies. In addition, we believe that FFO is helpful to investors as an additional measure of the performance of a REIT, because net income includes the impact of depreciation, which assumes that the value of real estate diminishes predictably over time, while we believe that the value of real estate fluctuates due to market conditions and in response to inflation. FFO computations do not consider scheduled principal payments on debt, capital improvements, distributions and other obligations of the Company. FFO is not a substitute for our cash flow or net income as a measure of our liquidity or operating performance or our ability to pay dividends. Other REITs may not compute FFO in the same manner; accordingly, FFO may not be comparable among REITs. See the following reconciliation of net income to FFO.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Amounts in thousands, except per share data)			
Computation of FFO allocable to Common Shares:				
Net income	$264,819	$194,513	$670,472	$616,022
Add back – depreciation and amortization, including amounts classified as discontinued operations	89,991	90,956	265,517	268,695
Add back – depreciation from unconsolidated real estate investments	18,391	17,925	56,955	52,351
Eliminate – gains on sale of real estate investments, including discontinued operations and from unconsolidated real estate investments	(13,010)	(5,943)	(14,273)	(5,818)
FFO allocable to equity holders	360,191	297,451	978,671	931,250
Less allocations of FFO to:				
Noncontrolling equity interests	(1,730)	(3,784)	(4,950)	(13,696)
Preferred shareholders - distributions	(49,267)	(56,670)	(156,272)	(172,926)
Preferred shareholders - redemptions	(11,350)	(16,178)	(49,677)	(32,077)
Restricted share unitholders	(1,198)	(641)	(2,990)	(2,060)
FFO allocable to Common Shares	$296,646	$220,178	$764,782	$710,491
Diluted weighted average common shares outstanding	171,700	170,830	171,558	170,538
FFO per diluted common share	$1.73	$1.29	$4.46	$4.17

Real Estate Operations

Self-Storage Operations: Our domestic self-storage operations are by far our largest segment, representing 93% of our revenues for the nine months ended September 30, 2012. We analyze our domestic self-storage operations in two groups: (i) the Same Store Facilities, representing the facilities that we have owned and operated on a stabilized basis since January 1, 2010, and (ii) all other facilities, which are newly acquired, newly developed, or recently expanded facilities (the “Non Same Store Facilities”).

Self-Storage Operations Summary	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
	(Dollar amounts in thousands)					
Revenues:						
Same Store Facilities	$412,641	$393,819	4.8 %	$1,191,269	$1,135,859	4.9 %
Non Same Store Facilities	28,277	21,733	30.1%	76,987	58,894	30.7%
Total rental income	440,918	415,552	6.1 %	1,268,256	1,194,753	6.2 %
Cost of operations:						
Same Store Facilities	118,566	121,338	(2.3)%	370,291	372,409	(0.6)%
Non Same Store Facilities	8,801	7,449	18.2%	25,090	21,037	19.3%
Total cost of operations	127,367	128,787	(1.1)%	395,381	393,446	0.5 %
Net operating income (a):						
Same Store Facilities	294,075	272,481	7.9 %	820,978	763,450	7.5 %
Non Same Store Facilities	19,476	14,284	36.3%	51,897	37,857	37.1%
Total net operating income	313,551	286,765	9.3 %	872,875	801,307	8.9 %
Total depreciation and amortization expense:						
Same Store Facilities	(78,452)	(79,229)	(1.0)%	(235,876)	(240,679)	(2.0)%
Non Same Store Facilities	(10,742)	(10,933)	(1.7)%	(27,233)	(25,588)	6.4 %
Total depreciation and amortization expense	(89,194)	(90,162)	(1.1)%	(263,109)	(266,267)	(1.2)%
Total net income	$224,357	$196,603	14.1%	$609,766	$535,040	14.0%
Number of facilities at period end:						
Same Store Facilities				1,941	1,941	-
Non Same Store Facilities				114	95	20.0%
Net rentable square footage at period end (in thousands):						
Same Store Facilities				122,464	122,464	-
Non Same Store Facilities				8,412	6,877	22.3%

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

Same Store Facilities

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

SAME STORE FACILITIES	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
	(Dollar amounts in thousands, except weighted average amounts)					
Revenues:						
Rental income	$391,461	$372,301	5.1 %	$1,130,548	$1,076,400	5.0 %
Late charges and administrative fees	21,180	21,518	(1.6)%	60,721	59,459	2.1 %
Total revenues (a)	412,641	393,819	4.8 %	1,191,269	1,135,859	4.9 %
Cost of operations:						
Property taxes	40,580	39,550	2.6 %	125,563	121,196	3.6 %
On-site property manager payroll	24,694	25,289	(2.4)%	74,973	76,481	(2.0)%
Repairs and maintenance	8,487	10,960	(22.6)%	31,097	32,718	(5.0)%
Utilities	10,153	10,501	(3.3)%	27,852	29,175	(4.5)%
Media advertising	1,239	2,144	(42.2)%	6,275	9,550	(34.3)%
Other advertising and selling expense	8,943	7,816	14.4 %	24,968	24,589	1.5 %
Other direct property costs	8,739	8,917	(2.0)%	26,492	27,215	(2.7)%
Supervisory payroll	8,191	8,199	(0.1)%	25,630	24,605	4.2 %
Allocated overhead	7,540	7,962	(5.3)%	27,441	26,880	2.1 %
Total cost of operations (a)	118,566	121,338	(2.3)%	370,291	372,409	(0.6)%
Net operating income (b)	294,075	272,481	7.9 %	820,978	763,450	7.5 %

Depreciation and amortization expense	(78,452)	(79,229)	(1.0)%	(235,876)	(240,679)	(2.0)%
Net income	$215,623	$193,252	11.6 %	$585,102	$522,771	11.9 %
Gross margin (before depreciation and amortization expense)	71.3 %	69.2 %	3.0 %	68.9 %	67.2 %	2.5 %
Weighted average for the period:						
Square foot occupancy (c)	92.7 %	92.2 %	0.5 %	91.9 %	91.5 %	0.4 %
Realized annual rent per occupied square foot (d)(e)	$13.79	$13.19	4.5 %	$13.39	$12.81	4.5 %
REVPAF (e)(f)	$12.79	$12.16	5.2 %	$12.31	$11.72	5.0 %
Weighted average at September 30:						
Square foot occupancy				92.5 %	91.7 %	0.9 %
In place annual rent per occupied square foot (g)				$14.63	$14.13	3.5 %
Total net rentable square feet (in thousands)				122,464	122,464	-
Number of facilities				1,941	1,941	-

(a) Revenues and cost of operations do not include ancillary revenues and expenses generated at the facilities with respect to tenant reinsurance and retail sales.

(b) See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our net income in our statements of income for the three and nine months ended September 30, 2012 and 2011.

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

(d) Realized annual rent per occupied square foot is computed by annualizing the result of dividing rental income (which excludes late charges and administrative fees) by the weighted average occupied square feet for the period. Realized annual rent per occupied square foot takes into consideration promotional discounts that reduce rental income from the contractual amounts due.

(e) Late charges and administrative fees are excluded from the computation of realized annual rent per occupied square foot and realized annual rent per available foot (“REVPAF”). Exclusion of these amounts provides a better measure of our ongoing level of revenue because late charges are dependent upon the level of delinquency and administrative fees are dependent upon the level of move-ins.

(f) REVPAF is computed by dividing rental income (which excludes late charges and administrative fees) by the total available net rentable square feet for the period.

(g) In place annual rent per occupied square foot represents annualized contractual rents per occupied square foot without reductions for promotional discounts and excludes late charges and administrative fees.

Revenues generated by our Same Store Facilities increased by 4.8% and 4.9% in the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011 due primarily to increased average rental rates charged to our tenants. These rate increases were due to annual increases for tenants that have been renting longer than one year and to reductions in promotional discounts to $24.1 million and $67.5 million for the three and nine months ended September 30, 2012, respectively, as compared to $26.7 million and $71.3 million for the same periods in 2011, respectively.

Average rental rates to new tenants increased 1.2% and move in volumes increased 3.4% for the three months ended September 30, 2012, as compared to the same period in 2011. For the nine months ended September 30, 2012, average rental rates for new tenants were flat and move-in volumes increased 2.6% as compared to the same period in 2011.

Our operating strategy is to maintain occupancy levels for our Same Store Facilities at an average of at least 90% for the full year. In order to achieve this strategy, we evaluate changes in traffic patterns of new tenants renting space and the volume of existing tenants vacating. In response to these trends, we increase or decrease rental rates, promotional discounts offered and the frequency of television advertising. We experience seasonal fluctuations in occupancy levels with occupancies generally higher in the summer months than in the winter months. Consequently, rates charged to new tenants are typically higher in the summer months than in the winter months.

Notwithstanding high current occupancy levels compared to historical levels, we intend to continue to be competitive in our pricing and discounting in order to compete with other operators to attract new incoming tenants. Based upon current trends, we expect positive year-over-year growth in rental income to continue.

Cost of operations (excluding depreciation and amortization) decreased 2.3% and 0.6% in the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The decreases were due primarily to reductions in on-site property manager payroll, repairs and maintenance, and media advertising, offset partially by an increase in property tax expense.

Property tax expense increased 2.6% and 3.6% in the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. We expect property tax expense growth of approximately 3.5% in the year ending December 31, 2012, due primarily to higher assessed values.

On-site property manager payroll expense decreased approximately 2.4% and 2.0% in the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011, due primarily to lower incentive compensation.   We expect payroll expense to be relatively flat in the remainder of 2012, compared to 2011.

Repairs and maintenance expenditures decreased 22.6% and 5.0% in the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. Repairs and maintenance expenditures are dependent upon several factors, such as weather, the timing of periodic needs throughout our portfolio, inflation in material and labor costs, and random events. Included in our repairs and maintenance expenditures in the nine months ended September 30, 2012 and 2011, respectively, was approximately $2.2 million and $3.5 million, respectively, in snow removal costs. During the three months ended March 31, 2012, we accelerated some of our normal repair and maintenance expenditures due to mild weather, and as a result, repairs and maintenance expenditures were lower in the six months ended September 30, 2012, as compared to the same period in 2011. During the three months ending December 31, 2012, we expect repairs and maintenance expense to be flat as compared to the same period in 2011.

Utility expenses decreased 3.3% and 4.5% in the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. These decreases are due primarily to reduced usage driven by milder weather. It is difficult to estimate future utility cost levels because utility costs are primarily dependent upon factors such as changes in demand driven by weather and temperature, as well as fuel prices, each of which is volatile and not predictable.

Media advertising decreased 42.2% and 34.3% in the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. These decreases are due primarily to reductions in the number of markets in which we advertised on television. We do not expect any spending on media advertising in the quarter ending December 31, 2012. Media advertising costs in particular can be volatile and may increase or decrease significantly in the short-term.

Other advertising and selling expense increased 14.4% and 1.5% in the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. This expense is comprised principally of yellow page, Internet advertising, and the operating costs of our telephone reservation center. The increases are due to higher Internet advertising spending, offset partially by reduced yellow page advertising. We expect other advertising and selling expense for the remainder of 2012 to be approximately 10% to 15% higher as compared to the same period in 2011.

Other direct property costs include administrative expenses that are solely attributable to the self-storage facilities, such as property insurance, office expenses incurred at the property, telephone and data communication lines at the properties, business license costs, and bank charges related to handling the properties' cash deposits. We expect moderate growth in other direct property costs in the remainder of 2012 as compared to the same period in 2011.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, was flat in the three months ended September 30, 2012, and up 4.2% in the nine months ended September 30, 2012, as compared to the same periods in 2011. The increase in the nine months ended September 30, 2012 was due principally to increased headcount. We expect more moderate growth in supervisory payroll in the remainder of 2012 as compared to the same period in 2011.

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). The increase is due principally to increased headcount. We expect moderate growth in allocated overhead in the remainder of 2012 as compared to the same period in 2011.

Impact of Hurricane Sandy

On October 30, 2012, Hurricane Sandy caused extensive damage to parts of the New Jersey/New York area (the "New York Market"). We have 90 facilities operating in the New York Market, of which 79 facilities are included in our Same Store pool. Property damage to our facilities appears to be minimal. Within a few days after the storm all of our facilities were opened for business.

The New York Market is our third largest market behind Los Angeles and San Francisco, with revenues and square foot occupancy for the 79 Same Store facilities in the New York Market of $27.1 million and 93.0%, respectively, for the three months ended September 30, 2012.

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We expect to incur less than $1.5 million in increased repairs and maintenance expenditures during the fourth quarter of 2012 as a result of storm damage, and do not expect any significant negative impact on our revenues. Our evaluation, however, could change as we continue to develop and implement remediation plans.

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

	For the Quarter Ended				
	March 31	June 30	September 30	December 31	Entire Year
	(Amounts in thousands, except for per square foot amount)				
Total revenues:					
2012	$383,928	$394,700	$412,641		
2011	$366,497	$375,543	$393,819	$386,196	$1,522,055
Total cost of operations:					
2012	$130,682	$121,043	$118,566		
2011	$128,295	$122,776	$121,338	$104,632	$477,041
Property tax expense:					
2012	$43,058	$41,925	$40,580		
2011	$41,382	$40,264	$39,550	$26,063	$147,259
Repairs and maintenance expense:					
2012	$12,025	$10,585	$8,487		
2011	$10,765	$10,993	$10,960	$12,519	$45,237
Media advertising expense:					
2012	$3,145	$1,891	$1,239		
2011	$4,046	$3,360	$2,144	$992	$10,542
REVPAF:					
2012	$11.89	$12.25	$12.79		
2011	$11.36	$11.64	$12.16	$11.96	$11.78
Weighted average realized annual rent per occupied square foot:					
2012	$13.17	$13.23	$13.79		
2011	$12.65	$12.61	$13.19	$13.26	$12.92
Weighted average occupancy levels for the period:					
2012	90.3 %	92.6 %	92.7 %		
2011	89.8 %	92.3 %	92.2 %	90.2 %	91.2 %

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Analysis of Regional Trends – Same Store Facilities

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Change	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Change
	(Amounts in thousands, except for weighted average data)					
Same Store Facilities Operating Trends by Region						
Revenues:						
Southern California (191 facilities)	$61,281	$58,752	4.3 %	$178,487	$171,565	4.0 %
Northern California (167 facilities)	41,773	39,760	5.1 %	121,321	114,947	5.5 %
Texas (228 facilities)	41,096	38,748	6.1 %	118,269	111,106	6.4 %
Florida (181 facilities)	38,310	36,479	5.0 %	110,991	105,605	5.1 %
Illinois (121 facilities)	25,448	24,235	5.0 %	73,111	69,853	4.7 %
Georgia (92 facilities)	14,967	14,407	3.9 %	43,318	41,433	4.5 %
Washington (89 facilities)	20,622	19,683	4.8 %	59,127	56,679	4.3 %
All other states (872 facilities)	169,144	161,755	4.6 %	486,645	464,671	4.7 %
Total revenues	412,641	393,819	4.8 %	1,191,269	1,135,859	4.9 %
Net operating income:						
Southern California	48,258	45,501	6.1 %	138,364	132,694	4.3 %
Northern California	32,137	30,071	6.9 %	91,754	85,930	6.8 %
Texas	27,686	24,743	11.9%	76,918	69,132	11.3%
Florida	25,871	23,768	8.8 %	72,947	67,121	8.7 %
Illinois	15,543	13,973	11.2%	40,309	36,447	10.6%
Georgia	10,546	9,782	7.8 %	29,068	27,129	7.1 %
Washington	15,893	14,905	6.6 %	43,887	41,696	5.3 %
All other states	118,141	109,738	7.7 %	327,731	303,301	8.1 %
Total net operating income	$294,075	$272,481	7.9 %	$820,978	$763,450	7.5 %
Weighted average occupancy:						
Southern California	92.7 %	91.9 %	0.9 %	92.5 %	92.0 %	0.5 %
Northern California	93.1 %	93.5 %	(0.4)%	93.0 %	92.8 %	0.2 %
Texas	93.0 %	92.3 %	0.8 %	92.0 %	91.2 %	0.9 %
Florida	92.3 %	91.5 %	0.9 %	91.5 %	90.8 %	0.8 %
Illinois	93.0 %	92.3 %	0.8 %	92.3 %	91.1 %	1.3 %
Georgia	91.7 %	91.9 %	(0.2)%	90.4 %	90.5 %	(0.1)%
Washington	92.2 %	92.0 %	0.2 %	91.1 %	91.2 %	(0.1)%
All other states	92.8 %	92.3 %	0.5 %	91.7 %	91.5 %	0.2 %
Total weighted average occupancy	92.7 %	92.2 %	0.5 %	91.9 %	91.5 %	0.4 %

Same Store Facilities Operating Trends by Region (Continued)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(Amounts in thousands, except for weighted average data)					
Realized annual rent per occupied square foot:						
Southern California	$19.18	$18.49	3.7 %	$18.65	$17.98	3.7 %
Northern California	17.93	16.95	5.8 %	17.37	16.45	5.6 %
Texas	11.10	10.49	5.8 %	10.76	10.19	5.6 %
Florida	12.99	12.41	4.7 %	12.66	12.11	4.5 %
Illinois	13.53	12.93	4.6 %	13.07	12.65	3.3 %
Georgia	10.11	9.67	4.6 %	9.90	9.43	5.0 %
Washington	14.70	13.98	5.2 %	14.21	13.57	4.7 %
All other states	12.98	12.44	4.3 %	12.61	12.06	4.6 %
Total realized rent per square foot	$13.79	$13.19	4.5 %	$13.39	$12.81	4.5 %
REVPAF:						
Southern California	$17.77	$16.99	4.6 %	$17.25	$16.54	4.3 %
Northern California	16.68	15.85	5.2 %	16.15	15.27	5.8 %
Texas	10.33	9.69	6.6 %	9.90	9.29	6.6 %
Florida	11.99	11.36	5.5 %	11.58	10.99	5.4 %
Illinois	12.58	11.93	5.4 %	12.06	11.53	4.6 %
Georgia	9.27	8.88	4.4 %	8.95	8.53	4.9 %
Washington	13.55	12.87	5.3 %	12.95	12.37	4.7 %
All other states	12.05	11.48	5.0 %	11.56	11.03	4.8 %
Total REVPAF	$12.79	$12.16	5.2 %	$12.31	$11.72	5.0 %

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, 2012 represent 114 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2010, or were acquired since January 1, 2010. As a result of the stabilization process and timing of when the facilities were placed into service, year-over-year changes can be significant. In the following table, “Facilities placed into service in 2012” includes 14 facilities acquired from third parties and three facilities that we obtained control of and began consolidating in the nine months ended September 30, 2012. “Facilities placed into service in 2011” includes 11 facilities acquired from third parties, one facility that was newly developed, and two facilities that we obtained control of and began consolidating in the year ended December 31, 2011. "Other facilities" includes 42 facilities we acquired in 2010, as well as 41 other facilities that we have owned since January 1, 2010 that are not stabilized due to the addition of more net rentable square feet or due to casualty damage.

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

NON SAME STORE FACILITIES	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(Dollar amounts in thousands, except square foot amounts)					
Rental income:						
Facilities placed into service in 2012	$2,806	$-	$2,806	$4,417	$-	$4,417
Facilities placed into service in 2011	3,476	1,955	1,521	9,750	3,122	6,628
Other facilities	21,995	19,778	2,217	62,820	55,772	7,048
Total rental income	28,277	21,733	6,544	76,987	58,894	18,093
Cost of operations before depreciation and amortization expense:						
Facilities placed into service in 2012	$1,228	$-	$1,228	$1,962	$-	$1,962
Facilities placed into service in 2011	974	829	145	3,059	1,299	1,760
Other facilities	6,599	6,620	(21)	20,069	19,738	331
Total cost of operations	8,801	7,449	1,352	25,090	21,037	4,053
Net operating income before depreciation and amortization expense (a):						
	$1,578	$-	$1,578	$2,455	$-	$2,455

Facilities placed into service in 2012						
Facilities placed into service in 2011	2,502	1,126	1,376	6,691	1,823	4,868
Other facilities	15,396	13,158	2,238	42,751	36,034	6,717
Total net operating income (a)	19,476	14,284	5,192	51,897	37,857	14,040
Depreciation and amortization expense	(10,742)	(10,933)	191	(27,233)	(25,588)	(1,645)
Net income	$8,734	$3,351	$5,383	$24,664	$12,269	$12,395
At September 30:						
Square foot occupancy:						
Facilities placed into service in 2012				79.4 %	-	-
Facilities placed into service in 2011				82.0 %	74.9 %	9.5 %
Other facilities				91.2 %	87.5 %	4.2 %
				88.0 %	85.6 %	2.8 %
In place annual rent per occupied square foot:						
Facilities placed into service in 2012				$14.65	$-	-
Facilities placed into service in 2011				15.21	14.13	7.6 %
Other facilities				16.34	15.78	3.5 %
				$15.95	$15.56	2.5 %

Number of Facilities:			
Facilities placed into service in 2012	17	-	17
Facilities placed into service in 2011	14	12	2
Other facilities	83	83	-
	114	95	19