Public Storage
Form 10-Q
November 08, 2010

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, 2010

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 4, 2010:

Common Shares of beneficial interest, $.10 par value per share – 170,325,428 shares

PUBLIC STORAGE

INDEX

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

ASSETS	September 30, 2010 (Unaudited)	December 31, 2009
Cash and cash equivalents	$513,479	$763,789
Marketable securities	102,131	-
Real estate facilities, at cost:		
Land	2,785,630	2,717,368
Buildings	7,773,237	7,575,587
	10,558,867	10,292,955
Accumulated depreciation	(2,975,105)	(2,734,449)
	7,583,762	7,558,506
Construction in process	8,298	3,527
	7,592,060	7,562,033
Investment in real estate entities	607,057	612,316
Goodwill, net	174,634	174,634
Intangible assets, net	45,804	38,270
Loan receivable from Shurgard Europe	515,379	561,703
Other assets	100,866	92,900
Total assets	$9,651,410	$9,805,645
LIABILITIES AND EQUITY		
Notes payable	$589,518	$518,889
Accrued and other liabilities	243,629	212,253
Total liabilities	833,147	731,142
Redeemable noncontrolling interests in subsidiaries (Note 6)	13,127	13,122
Commitments and contingencies (Note 11)		

Equity:		
Public Storage shareholders' equity:		
Cumulative Preferred Shares of beneficial interest, $0.01 par value, 100,000,000 shares authorized, 485,740 shares issued (in series) and outstanding, (886,140 at December 31, 2009) at liquidation preference	3,379,777	3,399,777
Common Shares of beneficial interest, $0.10 par value, 650,000,000 shares authorized, 169,174,859 shares issued and outstanding (168,405,539 at December 31, 2009)	16,919	16,842
Equity Shares of beneficial interest, Series A, $0.01 par value, 100,000,000 shares authorized, none outstanding (8,377.193 shares issued and outstanding at December 31, 2009) (Note 7)	-	-
Paid-in capital	5,513,603	5,680,549
Accumulated deficit	(226,343)	(153,759)
Accumulated other comprehensive loss	(11,880)	(15,002)
Total Public Storage shareholders' equity	8,672,076	8,928,407
Equity of permanent noncontrolling interests in subsidiaries (Note 6)	133,060	132,974
Total equity	8,805,136	9,061,381
Total liabilities and equity	$9,651,410	$9,805,645

See accompanying notes.

1

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues:				
Self-storage facilities	$ 389,402	$ 377,430	$ 1,127,638	$ 1,118,750
Ancillary operations	26,588	27,800	78,823	81,741
Interest and other income	6,775	6,857	22,023	22,006
	422,765	412,087	1,228,484	1,222,497
Expenses:				
Cost of operations:				
Self-storage facilities	127,672	120,975	388,086	378,259
Ancillary operations	7,091	7,493	25,060	27,520
Depreciation and amortization	92,648	85,670	262,359	253,844
General and administrative	8,910	8,654	29,068	26,532
Interest expense	7,838	7,289	22,455	22,705
	244,159	230,081	727,028	708,860
Income from continuing operations before equity in earnings of real estate entities, foreign currency exchange gain (loss), gains on disposition of real estate investments, gain on early retirement of debt and asset impairment charges	178,606	182,006	501,456	513,637
Equity in earnings of real estate entities	9,043	8,824	27,792	39,033
Foreign currency exchange gain (loss)	55,455	21,429	(28,592)	19,901
Gains on disposition of real estate investments	-	30,573	396	33,295
Gain on early retirement of debt	-	-	283	4,114
Asset impairment charges	-	-	(1,949)	-
Income from continuing operations	243,104	242,832	499,386	609,980
Discontinued operations	2,707	1,119	7,518	(7,213)
Net income	245,811	243,951	506,904	602,767
Net income allocated (to) from noncontrolling interests in subsidiaries:				
Based upon income of the subsidiaries	(6,457)	(6,642)	(18,551)	(21,284)

Based upon repurchases of interests	-	-	-	72,000
Net income allocable to Public Storage shareholders	$ 239,354	$ 237,309	$ 488,353	$ 653,483
Allocation of net income to (from) Public Storage shareholders:				
Preferred shareholders based on distributions paid	$ 57,522	$ 58,108	$ 174,509	$ 174,324
Preferred shareholders based on repurchases	(800)	-	4,263	(6,218)
Equity Shares, Series A	-	5,131	5,131	15,393
Equity Shares, Series A based on redemptions	-	-	25,746	-
Restricted share units	426	577	923	1,509
Common shareholders	182,206	173,493	277,781	468,475
	$ 239,354	$ 237,309	$ 488,353	$ 653,483
Net income per common share – basic				
Continuing operations	$ 1.06	$ 1.02	$ 1.61	$ 2.82
Discontinued operations	0.02	0.01	0.04	(0.04)
	$ 1.08	$ 1.03	$ 1.65	$ 2.78
Net income per common share – diluted				
Continuing operations	$ 1.05	$ 1.02	$ 1.60	$ 2.82
Discontinued operations	0.02	0.01	0.04	(0.04)
	$ 1.07	$ 1.03	$ 1.64	$ 2.78
Basic weighted average common shares outstanding	169,014	168,373	168,766	168,344
Diluted weighted average common shares outstanding	169,977	169,043	169,640	168,681

See accompanying notes.

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

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Equity of Permanent Noncontrolling Interests In Subsidiaries	Total Equity
Balance at December 31, 2009	$3,399,777	$16,842	$5,680,549	$(153,759)	$(15,002)	$8,928,407	$132,974	$9,061,381
Redemption of cumulative preferred shares (6,600 shares) (Note 7)	(165,000)	-	800	-	-	(164,200)	-	(164,200)
Issuance of cumulative preferred shares (5,800 shares) (Note 7)	145,000	-	(4,784)	-	-	140,216	-	140,216
Redemption of Equity Shares, Series A (8,377.193 shares) (Note 7)	-	-	(205,366)	-	-	(205,366)	-	(205,366)
Issuance of common shares in connection with share-based compensation (769,320 shares) (Note 9)	-	77	36,525	-	-	36,602	-	36,602
Share-based compensation expense, net of cash compensation in lieu of common shares (Note 9)	-	-	5,879	-	-	5,879	-	5,879
Adjustments of redeemable noncontrolling interests in subsidiaries to	-	-	-	(194)	-	(194)	-	(194)

liquidation value (Note 6)								
Net income	-	-	-	506,904	-	506,904	-	506,904
Net income allocated to (Note 6):								
Redeemable noncontrolling interests in subsidiaries	-	-	-	(695)	-	(695)	-	(695)
Permanent noncontrolling equity interests	-	-	-	(17,856)	-	(17,856)	17,856	-
Distributions to equity holders:								
Cumulative preferred shares (Note 7)	-	-	-	(174,509)	-	(174,509)	-	(174,509)
Permanent noncontrolling interests in subsidiaries	-	-	-	-	-	-	(17,770)	(17,770)
Equity Shares, Series A ($0.6125 per depositary share)	-	-	-	(5,131)	-	(5,131)	-	(5,131)
Holders of unvested restricted share units	-	-	-	(1,194)	-	(1,194)	-	(1,194)
Common shares ($2.25 per share)	-	-	-	(379,909)	-	(379,909)	-	(379,909)
Other comprehensive income (Note 2)	-	-	-	-	3,122	3,122	-	3,122
Balance at September 30, 2010	$3,379,777	$16,919	$5,513,603	$(226,343)	$(11,880)	$8,672,076	$133,060	$8,805,136

See accompanying notes.

3

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

	For the Nine Months Ended September 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 506,904	$ 602,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposition of real estate investments, including amounts in discontinued operations	(8,190)	(39,313)
Gain on early retirement of debt	(283)	(4,114)
Asset impairment charges, including amounts in discontinued operations	2,544	8,205
Depreciation and amortization, including amounts in discontinued operations	262,739	256,108
Distributions received from real estate entities in excess of (less than) equity in earnings of real estate entities	9,585	(2,893)
Foreign currency exchange loss (gain)	28,592	(19,901)
Other	19,823	36,670
Total adjustments	314,810	234,762
Net cash provided by operating activities	821,714	837,529
Cash flows from investing activities:		
Capital improvements to real estate facilities	(68,628)	(52,449)
Construction in process	(11,859)	(11,029)
Acquisition of real estate facilities and tenant intangibles (Note 3)	(93,660)	-
Proceeds from sales of other real estate investments	15,442	10,464
Acquisition of common stock of PS Business Parks	-	(17,825)
Proceeds from repayments of loan receivable from Shurgard Europe	18,919	-
Net purchases of marketable securities	(104,828)	-
Other investing activities	4,572	(4,321)
Net cash used in investing activities	(240,042)	(75,160)
Cash flows from financing activities:		
Principal payments on notes payable	(57,575)	(5,601)
Repurchases of senior unsecured notes payable	-	(109,622)
Net proceeds from the issuance of common shares	36,602	1,899
Issuance of cumulative preferred shares	140,216	-
Repurchases of cumulative preferred shares	(164,200)	(17,535)
Repurchases of Equity Shares, Series A	(205,366)	-
Repurchases of permanent noncontrolling equity interests	-	(153,000)
Distributions paid to Public Storage shareholders	(560,743)	(468,507)
Distributions paid to redeemable noncontrolling interests	(884)	(976)
Distributions paid to permanent noncontrolling equity interests	(17,770)	(19,304)

Net cash used in financing activities	(829,720)	(772,646)
Net decrease in cash and cash equivalents	(248,048)	(10,277)
Net effect of foreign exchange translation on cash	(2,262)	504
Cash and cash equivalents at the beginning of the period	763,789	680,701
Cash and cash equivalents at the end of the period	$ 513,479	$ 670,928

See accompanying notes.

4

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

(Continued)

	For the Nine Months Ended September 30, 2010	2009
Supplemental schedule of non cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	$ 129	$ (1,440)
Investment in real estate entities	(4,326)	(18,191)
Loan receivable from Shurgard Europe	27,405	(19,422)
Accumulated other comprehensive loss	(25,470)	39,557
Adjustments of redeemable noncontrolling interests to fair values:		
Accumulated deficit	(194)	(256)
Redeemable noncontrolling interests	194	256
Real estate acquired in exchange for assumption of notes payable	(131,698)	-
Notes payable assumed in connection with the acquisition of real estate	131,698	-
Real estate disposed of in exchange for other asset	-	2,941
Other asset received in exchange for disposal of real estate	-	(2,941)

See accompanying notes.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

1. Description of the Business

Public Storage (referred to herein as "the Company", "the Trust", "we", "us", or "our"), a Maryland real estate investment tru 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. Our self-storage facilities are located primarily in the United States ("U.S."). We also have interests in self-storage facilities located in seven Western European countries.

At September 30, 2010, we had direct and indirect equity interests in 2,044 self-storage facilities (with approximately 129.2 million net rentable square feet) located in 38 states operating under the "Public Storage" name and own one facility in London, England. We also have a 49% interest in Shurgard Europe, which has an ownership interest in 188 self-storage facilities (with approximately 10.1 million net rentable square feet) located in Europe (116 facilities with approximately 6.5 million net rentable square feet are owned directly, and the remaining 72 facilities with approximately 3.6 million net rentable square feet are owned by two joint ventures that Shurgard Europe has a 20% equity interest in), and manages our London, England facility, all operating under the "Shurgard Storage Centers" name. We also have direct and indirect equity interests in approximately 23 million net rentable square feet of commercial space located in 11 states in the U.S. primarily operated by PS Business Parks, Inc. ("PSB") under the "PS Business Parks" name.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as defined in the Financial Accounting Standards Board Accounting Standards Codification (the "Codification"), including the related guidance with respect to interim financial information, and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation have been reflected in these unaudited condensed consolidated financial statements. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 due to seasonality and other factors. The accompanying unaudited condensed consolidated financial statements should be read together with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Certain amounts previously reported in our December 31, 2009 and September 30, 2009 financial statements have been reclassified to conform to the September 30, 2010 presentation, as a result of discontinued operations.

Consolidation Policy

Codification Section 810-10-15-14 stipulates that generally any entity with a) insufficient equity to finance its activities without additional subordinated financial support provided by any parties, or b) equity holders that, as a group, lack the characteristics specified in the Codification which evidence a controlling financial interest, is considered a Variable Interest Entity ("VIE").

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

When we are the general partner, we are presumed to control the partnership unless the limited partners possess either a) the substantive ability to dissolve the partnership or otherwise remove us as general partner without cause (commonly referred to as "kick-out rights"), or b) the right to participate in substantive operating and financial decisions of the limited partnership that are expected to be made in the course of the partnership's business.

The accounts of the entities we control, and VIE's that we are the primary beneficiary of, are included in our consolidated financial statements, and all intercompany balances and transactions are eliminated. We account for our investment in entities that we do not consolidate using the equity method of accounting or, if we do not have the ability to exercise significant influence over an investee, the cost method of accounting. Changes in consolidation status are reflected effective the date the change of control or determination of primary beneficiary status occurred, and previously reported periods are not restated. The entities that we consolidate, for the periods in which the reference applies, are referred to hereinafter as the "Subsidiaries." The entities that we have an interest in but do not consolidate, for the periods in which the reference applies, are referred to hereinafter as the "Unconsolidated Entities."

Collectively, at September 30, 2010, the Company and the Subsidiaries own a total of 2,033 real estate facilities included in continuing operations, consisting of 2,025 self-storage facilities in the U.S., one self-storage facility in London, England and seven commercial facilities in the U.S.

At September 30, 2010, the Unconsolidated Entities are comprised of PSB, Shurgard Europe, and various limited and joint venture partnerships (the partnerships referred to as the "Other Investments"). At September 30, 2010, PSB owns approximately 21.1 million rentable square feet of commercial space, Shurgard Europe has interests in 188 self-storage facilities in Europe with 10.1 million net rentable square feet, and the Other Investments own in aggregate 19 self-storage facilities with 1.1 million net rentable square feet in the U.S.

Use of Estimates

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

Income Taxes

For all taxable years subsequent to 1980, the Company has qualified and intends to continue to qualify as a real estate investment trust ("REIT"), as defined in Section 856 of the Internal Revenue Code. As a REIT, we do not incur federal or significant state tax on that portion of our taxable income which is distributed to our shareholders, provided that we meet certain tests. We believe we have met these tests during 2009, for the three quarters ended September 30, 2010, and we expect to meet these tests for the rest of 2010 and, accordingly, no provision for federal income taxes has been made in the accompanying condensed consolidated financial statements on income produced and distributed on real estate rental operations. We have business operations in taxable REIT subsidiaries that are subject to regular corporate tax on their taxable income, and such corporate taxes attributable to these operations are presented in ancillary cost of operations in our accompanying condensed consolidated statements of income. We also are subject to certain state taxes, which are presented in general and administrative expense in our accompanying condensed consolidated statements of income. We have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements with respect to all tax periods which remain subject to examination by major tax jurisdictions as of September 30, 2010.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Real Estate Facilities

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

Acquisitions of operating self-storage facilities are accounted for under the provisions of Codification Section 805, "Business Combinations." The net acquisition cost includes cash paid to the seller as well as the fair value of any mortgage debt assumed. In the case of multiple facility acquisitions, the aggregate acquisition cost is allocated to each facility based upon the relative estimated fair value of each facility. Any difference between the acquisition cost and the fair value of the real estate facilities is recorded as goodwill. The acquisition cost of each facility is allocated to the underlying land, buildings, and self-storage tenants in place ("Tenant Intangibles") of each facility, based upon the relative estimated fair values. Significant judgment is used to estimate fair values in recording our business combinations, and the valuation process utilizes significant unobservable inputs, which are "Level 3" inputs as the term is defined in FASB Codification Section 820-10-35-52. Legal services, due diligence, transfer taxes, and other internal and external transaction costs associated with acquisitions are expensed as incurred.

Other Assets

Other assets primarily consist of prepaid expenses, accounts receivable, interest receivable, and restricted cash. During the nine months ended September 30, 2010, we recorded impairment charges with respect to other assets totaling $611,000. These amounts are included in "asset impairment charges" on our condensed consolidated statement of income for the nine months ended September 30, 2010.

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, contingent casualty and other losses which are accrued when probable and to the extent they are estimable, and estimated losses we expect to pay related to our tenant insurance activities. When it is at least reasonably possible that a significant unaccrued contingent loss has occurred, we disclose the nature of that potential loss under "Legal Matters" in Note 11 "Commitments and Contingencies".

Financial Instruments

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

For purposes of financial statement presentation, we consider all highly liquid financial instruments such as short-term treasury securities, 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 with remaining maturities of three months or less at the date of acquisition to be cash equivalents. Any such cash and cash equivalents which are restricted from general corporate use (restricted cash) due to insurance or other regulations, or based upon contractual requirements, are included in other assets.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Marketable securities consist of short-term investments in high-grade corporate securities rated A1 by Standard and Poor's. Because we have the positive intent and ability to hold these securities to maturity, the securities are stated at amortized cost and the related unrecognized gains and losses are excluded from earnings and other comprehensive income. The difference between interest income that is imputed using the effective interest method and the actual note interest collected is recorded as an adjustment to the marketable security balance; marketable securities were decreased $354,000 during the nine months ended September 30, 2010 in applying the effective interest method. The amortized cost, gross unrecognized holding losses, and fair value of our marketable securities were $102,131,000, ($16,000) and $102,115,000, respectively, at September 30, 2010. The characteristics of the marketable securities and comparative metrics utilized in our evaluation represent significant observable inputs, which are "Level 2" inputs as the term is defined in FASB Codification Section 820-10-35-47. All of our marketable securities have a maturity of one year or less as of September 30, 2010. We periodically assess our marketable securities for other-than-temporary impairment. Any such other-than-temporary impairment from credit loss is recognized as a realized loss and measured as the excess of carrying value over fair value at the time the assessment is made. During the nine months ended September 30, 2010, we had no other-than-temporary impairment losses.

Due to the short maturity and the underlying characteristics of our cash and cash equivalents, other assets, and accrued and other liabilities, we believe the carrying values as presented on the condensed consolidated balance sheets are reasonable estimates of fair value.

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, marketable securities, accounts receivable, the loan receivable from Shurgard Europe, and restricted cash, which is included in other assets. Cash and cash equivalents and restricted cash, as described above, including commercial paper, are only invested in instruments with an investment grade rating. See "Loan Receivable from Shurgard Europe" below for information regarding our fair value measurement of this instrument.

At September 30, 2010, due primarily to our investment in and loan receivable from Shurgard Europe, our operations and our 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.

We estimate the fair value of our notes payable to be $612,297,000 at September 30, 2010, based primarily upon discounting the future cash flows under each respective note at an interest rate that approximates loans with similar credit quality and term to maturity. The characteristics of the notes payable and comparative metrics utilized in our evaluation represent significant observable inputs, which are "Level 2" inputs as the term is utilized in FASB Codification Section 820-10-35-47.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and identifiable intangible assets acquired in business combinations, and has an indeterminate life. Each business combination from which our goodwill arose was for the acquisition of single businesses and accordingly, the allocation of our goodwill to our business segments is based directly on such acquisitions. Our goodwill balance of $174,634,000 is reported net of accumulated amortization of $85,085,000 as of September 30, 2010 and December 31, 2009.

9

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Intangible Assets

Our tenant intangibles are finite-lived intangible assets representing primarily the estimated value of the tenants in place ("Tenant Intangibles") at the date of the acquisition of each respective facility. Tenant Intangibles are amortized relative to the benefit of the tenants in place to each period. Accumulated amortization reflects those individual real estate facilities where the related Tenant Intangibles had not been fully amortized at each applicable date.

At September 30, 2010, our Tenant Intangibles have a net book value of $26,980,000 ($19,446,000 at December 31, 2009). Accumulated amortization totaled $18,971,000 at September 30, 2010 ($14,688,000 at December 31, 2009), and amortization expense of $5,764,000 and $1,145,000 was recorded for the three months ended September 30, 2010 and 2009, respectively, and $9,078,000 and $4,434,000 was recorded for the nine months ended September 30, 2010 and 2009, respectively. During the nine months ended September 30, 2010, our Tenant Intangibles were increased by $16,810,000 in connection with the acquisition of 38 self-storage facilities (Note 3) and were reduced by $198,000 in connection with the termination of a ground lease.

We also have an intangible asset representing the value of the "Shurgard" trade name, which is used by Shurgard Europe pursuant to a licensing agreement, with a book value of $18,824,000 at September 30, 2010 and December 31, 2009. The Shurgard trade name has an indefinite life and, accordingly, we do not amortize this asset but instead analyze it on an annual basis for impairment. No impairments have been noted from any of our annual evaluations, and we did not identify any indicators of impairment at September 30, 2010.

Evaluation of Asset Impairment

We evaluate our real estate, tenant intangible assets, and other long-lived assets for impairment on a quarterly basis. We first evaluate these assets for indicators of impairment, and if any indicators of impairment are noted, we determine whether the carrying value of such assets is in excess of the future estimated undiscounted cash flows attributable to these assets. If there is excess carrying value over such future undiscounted cash flows, an impairment charge is recorded for the excess of carrying value over the assets' estimated fair value. Any long-lived assets which we expect to sell or otherwise dispose of prior to their estimated useful life are stated at the lower of their estimated net realizable value (estimated fair value less cost to sell) or their carrying value. During the nine months ended September 30, 2010, we recorded impairment charges totaling $2,544,000, comprised of $1,735,000 in real estate facilities (Note 3), of which $397,000 is reflected under "discontinued operations" on our condensed consolidated statements of income, $611,000 in other assets, and $198,000 in intangible assets related to a ground lease and which is reflected under "discontinued operations" on our condensed consolidated statements of income. During the nine months ended September 30, 2009, we recorded an impairment charge of $8,205,000, reflected under "discontinued operations" on our condensed consolidated statements of income, in connection with an eminent domain proceeding at one of our facilities. No additional impairments were identified from our evaluations in any periods presented in the accompanying condensed consolidated financial statements, except as noted above.

We evaluate impairment of goodwill annually by comparing the aggregate book value (including goodwill) of each reporting unit to their respective estimated fair value. No impairment of our goodwill was identified in our annual evaluation at December 31, 2009, nor were there any indicators of impairment at September 30, 2010.

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 are recognized as a reduction to rental income over the promotional period, which is generally during the first month of occupancy. Ancillary revenues and interest and other income are recognized when earned. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the Unconsolidated Entities.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

We accrue for property tax expense based upon actual amounts billed for the related time periods and, in some circumstances due to taxing authority assessment and billing timing and disputes of assessed amounts, estimates and historical trends. If these estimates are incorrect, the timing and amount of expense recognition could be affected. Cost of operations, general and administrative expense, interest expense, as well as television, yellow page, and other advertising expenditures are expensed as incurred.

Foreign Currency Exchange Translation

The local currency is the functional currency for the foreign operations we have an interest in. Assets and liabilities included on our consolidated balance sheets, including our equity investment in, and our loan receivable from, Shurgard Europe, are translated at end-of-period exchange rates, while revenues, expenses, and equity in earnings in the related real estate entities, are translated at the average exchange rates in effect during the period. The Euro, which represents the functional currency used by a majority of the foreign operations we have an interest in, was translated at an end-of-period exchange rate of approximately 1.361 U.S. Dollars per Euro at September 30, 2010 (1.433 at December 31, 2009), and average exchange rates of 1.289 and 1.428 for the three months ended September 30, 2010 and 2009, respectively, and 1.316 and 1.365 for the nine months ended September 30, 2010 and 2009, respectively. Equity is translated at historical rates and the resulting cumulative translation adjustments, to the extent not included in net income, are included as a component of accumulated other comprehensive income (loss) until the translation adjustments are realized. See “Other Comprehensive Income” below for further information regarding our foreign currency translation gains and losses.

Fair Value Accounting

As the term is used in our financial statements, “fair value” is an exit price, representing the amount 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 the FASB Codification Section 820-10-35. See “Loan Receivable from Shurgard Europe” below, and “Financial Instruments” and “Real Estate Facilities” above, as well as “Redeemable Noncontrolling Interests in Subsidiaries” and “Other Permanent Noncontrolling Interests in Subsidiaries” in Note 6 for information regarding our fair value measurements.

Loan Receivable from Shurgard Europe

As of September 30, 2010, we had a €378.7 million loan receivable from Shurgard Europe totaling $515,379,000 (€391.9 million totaling $561,703,000 at December 31, 2009). The loan, as amended, bears interest at a fixed rate of 9.0% per annum and matures March 31, 2013. Prior to being amended on October 31, 2009, the loan bore interest at a fixed rate of 7.5% per annum and matured on March 31, 2010. All other material terms and conditions remained the same after the amendment.

The loan is denominated in Euros and is translated to U.S. Dollars for financial statement purposes. During each applicable period, because we have expected repayment of the loan within two years of each respective balance sheet date, we have recognized foreign exchange rate gains or losses in income as a result of changes in exchange rates between the Euro and the U.S. Dollar.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

For the three and nine months ended September 30, 2010, we recorded interest income of approximately $5,946,000 and $18,209,000, respectively, related to the loan. For the three and nine months ended September 30, 2009, we recorded interest income of approximately $6,038,000 and $17,012,000, respectively, related to the loan. These amounts reflect 51% of the aggregate interest on the loans, with the other 49%, reflecting our ownership interest in Shurgard Europe, classified as equity in earnings of real estate entities. Loan fees collected from Shurgard Europe are amortized on a straight-line basis as interest income over the applicable term to which the fee applies. We received $18,919,000 (€13,200,000) in principal repayments on the loan during the nine months ended September 30, 2010.

Although there can be no assurance, we believe that Shurgard Europe has sufficient liquidity and collateral, and we have sufficient creditor rights, such that credit risk relating to the loan is minimal. In addition, we believe the interest rate on the loan approximates the market rate for loans with similar credit characteristics and tenor, and that the carrying value of the loan approximates fair value. The characteristics of the loan and comparative metrics utilized in our evaluation represent significant unobservable inputs, which are "Level 3" inputs as the term is utilized in FASB Codification Section 820-10-35-52.

Other Comprehensive Income

Other comprehensive income consists primarily of foreign currency translation adjustments. Other comprehensive income is reflected as an adjustment to "Accumulated Other Comprehensive Income" in the equity section of our condensed consolidated balance sheet, and is added to our net income in determining total comprehensive income for the period as reflected in the following table:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Amounts in thousands)		(Amounts in thousands)	
Net income	$245,811	$243,951	$506,904	$602,767
Other comprehensive income (loss):				
Aggregate foreign currency translation adjustments for the period	78,826	27,244	(25,470)	39,557
Less: foreign currency translation adjustments reflected in net income as "Foreign currency (gain) loss" (a)	(55,455)	(21,429)	28,592	(19,901)
Other comprehensive income for the period	23,371	5,815	3,122	19,656
Total comprehensive income	$269,182	$249,766	$510,026	$622,423

(a) Included in the foreign currency (gain) loss for the three and nine months ended September 30, 2010 is a realized gain of $0.5 million in connection with the repayment on September 30, 2010 by Shurgard Europe of EUR12.1 million of the their loan payable to us. This gain represents the difference between the spot rates on the date the amount was initially funded by us (1.32 U.S. Dollars per Euro) and the repayment date (1.36 U.S. Dollars per Euro).

Discontinued Operations

The revenues and expenses of operating units (including individual real estate facilities) that can be segregated from the other operations of the Company, and either i) have been eliminated from the ongoing operations of the Company or ii) are expected to be eliminated from the ongoing operations of the Company within the next year pursuant to a committed plan of disposal, are reclassified and presented for all periods as “discontinued operations” on our condensed consolidated statements of income.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Included in discontinued operations are the historical operations of (i) two facilities we currently own that are subject to eminent domain proceedings, (ii) a land-leased facility that was disposed of in the nine months ended September 30, 2010 when the land lease expired, (iii) our truck rental and containerized storage operations which ceased in 2009, and (iv) certain other self-storage facilities that were disposed of in 2009 in connection with eminent domain proceedings. In addition to revenues and expenses of these operating units prior to disposal, discontinued operations is comprised primarily of $2,707,000 in gains on disposition of real estate facilities for the three months ended September 30, 2010 and $7,794,000 and $6,018,000 in gains on disposition of real estate facilities for the nine months ended September 30, 2010 and 2009, respectively, a $595,000 impairment charge on real estate and intangible assets incurred in the nine months ended September 30, 2010, a $8,205,000 impairment charge on intangible assets incurred at a discontinued facility and $3,500,000 in truck disposal expenses in the nine months ended September 30, 2009.

Net Income per Common Share

We first allocate net income to our noncontrolling interests in subsidiaries (Note 6) and preferred shareholders to arrive at net income allocable to our common shareholders and Equity Shares, Series A. Net income allocated to preferred shareholders or noncontrolling interests in subsidiaries includes any excess of the cash required to redeem any preferred securities in the period over the net proceeds from the original issuance of the securities (or, if securities are redeemed for less than the original issuance proceeds, income allocated to the holders of the redeemed securities is reduced).

The remaining net income is allocated among our regular common shares, restricted share units, and our Equity Shares, Series A based upon the dividends declared (or accumulated) for each security in the period, combined with each security's participation rights in undistributed earnings. Net income allocated to the Equity Shares, Series A for the nine months ended September 30, 2010 also includes $25.7 million, representing the excess of cash paid to redeem the securities over the original issuance proceeds. We redeemed these securities on April 15, 2010.

Net income allocated to our regular common shares from continuing operations is computed by eliminating the net income or loss from discontinued operations allocable to our regular common shares, from net income allocated to our regular common shares.

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 9).

The following table reflects the components of the calculations of our basic and diluted net income per share, basic and diluted net 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 condensed consolidated statements of income:

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Amounts in thousands)			
Net income allocable to common shareholders from continuing operations and discontinued operations:				
Net income allocable to common shareholders	$182,206	$173,493	$277,781	$468,475
Eliminate: Discontinued operations allocable to common shareholders	(2,707)	(1,119)	(7,518)	7,213
Net income from continuing operations allocable to common shareholders	$179,499	$172,374	$270,263	$475,688
Weighted average common shares and equivalents outstanding:				
Basic weighted average common shares outstanding	169,014	168,373	168,766	168,344
Net effect of dilutive stock options - based on treasury stock method using average market price	963	670	874	337
Diluted weighted average common shares outstanding	169,977	169,043	169,640	168,681

Recent Accounting Pronouncements and Guidance

In June 2009, the FASB issued accounting pronouncements which became effective January 1, 2010 and require restatement of previously reported financial statements on the new accounting basis. One pronouncement affects accounting for Variable Interest Entities, by (i) eliminating the concept of a qualifying special purpose entity, (ii) replacing the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity, and (iii) providing for additional disclosures about an entity's involvement with a variable interest entity. Another pronouncement affects the accounting for transfers of financial assets, by (i) eliminating the concept of a qualifying special purpose entity, (ii) amending the derecognition criteria for a transfer to be accounted for as a sale, and (iii) requiring additional disclosure over transfers accounted for as a sale. These pronouncements did not have any effect on our financial statements.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

3. Real Estate Facilities

Activity in real estate facilities is as follows:

	Nine Months Ended September 30, 2010 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	$ 10,292,955
Capital improvements	68,628
Acquisition of real estate facilities	208,765
Newly developed facilities opened for operations	7,088
Disposition of real estate facilities	(16,665)
Impairment of real estate facilities	(1,735)
Impact of foreign exchange rate changes	(169)
Ending balance	10,558,867
Accumulated depreciation:	
Beginning balance	(2,734,449)
Depreciation expense	(250,109)
Disposition of real estate facilities	9,413
Impact of foreign exchange rate changes	40
Ending balance	(2,975,105)
Construction in process:	
Beginning balance	3,527
Current development	11,859
Newly developed facilities opened for operations	(7,088)

Ending balance	8,298
Total real estate facilities at September 30, 2010	$7,592,060

During the nine months ended September 30, 2010, we acquired 38 operating self-storage facilities (2,358,000 net rentable square feet) from third parties for $225,358,000, consisting of the assumption of mortgage debt with an aggregate fair value of $131,698,000 and $93,660,000 of cash. The aggregate cost was allocated $208,765,000 to real estate facilities, $16,810,000 to intangibles and $217,000 to other liabilities. For the three and nine months ended September 30, 2010, we also incurred $750,000 and $2,384,000, respectively, in legal, due diligence, transfer taxes, and other transaction costs related to the acquisitions. These amounts were included in general and administrative expense on our accompanying condensed consolidated statements of operations.

During the nine months ended September 30, 2010, we completed two expansion projects to existing facilities at an aggregate cost of $7,088,000.

During the nine months ended September 30, 2010, we disposed of real estate facilities in connection with condemnation proceedings and the sale of a commercial facility. Net proceeds with respect to dispositions totaled $15,442,000 and we recorded a gain of $8,190,000 ($396,000 included in “gain on disposition of real estate facilities” and $7,794,000 included in discontinued operations).

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

4. Investments in Real Estate Entities

The following table sets forth our investments in the real estate entities at September 30, 2010 and December 31, 2009, and our equity in earnings of real estate entities for the three and nine months ended September 30, 2010 and 2009 (amounts in thousands):

	Investments in Real Estate Entities at	
	September 30, 2010	December 31, 2009
PSB	$ 325,123	$ 326,145
Shurgard Europe	268,637	272,345
Other Investments	13,297	13,826
Total	$ 607,057	$ 612,316

	Equity in Earnings of Real Estate Entities			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
PSB	$ 5,091	$ 4,684	$ 16,279	$ 30,351
Shurgard Europe	3,485	3,631	10,254	7,239
Other Investments	467	509	1,259	1,443
Total	$ 9,043	$ 8,824	$ 27,792	$ 39,033

Included in equity in earnings of real estate entities for the nine months ended September 30, 2009 is $16,284,000, representing our share of the earnings allocated from PSB's preferred shareholders as a result of PSB's repurchases of preferred stock and preferred units for amounts that were less than the related book value, during the period.

During the nine months ended September 30, 2010 and 2009, we received cash distributions from our investments in real estate entities totaling $37,377,000 and $36,140,000, respectively.

During the nine months ended September 30, 2010 and 2009, our investment in Shurgard Europe increased by approximately $4,326,000 and $18,191,000, respectively, due to the impact of changes in foreign currency exchange rates. During the three and nine months ended September 30, 2009, our investments in real estate entities increased by $48,118,000 due to (i) $17,825,000 representing our acquisition of an additional 383,333 shares of PSB common stock and (ii) $30,293,000 presented in "gains on disposition of real estate investments" in connection with PSB's sale of common stock in a public offering described below in "Investment in PSB."

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange, which controls an operating partnership (collectively, the REIT and the operating partnership are referred to as "PSB"). We have a 41% common equity interest in PSB as of September 30, 2010 and December 31, 2009, 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, 2010 ($56.57 per share of PSB common stock), the shares and units we owned had a market value of approximately $741.5 million as compared to our book value of $325.1 million. We account for our investment in PSB using the equity method.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

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

	2010	2009
	(Amounts in thousands)	
For the nine months ended September 30,		
Total revenue	$ 207,698	$ 203,914
Costs of operations	(67,633)	(65,007)
Depreciation and amortization	(58,056)	(64,854)
General and administrative	(6,980)	(4,927)
Other items	2,861	(177)
Net income	$ 77,890	$ 68,949

	At September 30, 2010	At December 31, 2009
	(Amounts in thousands)	
Total assets (primarily real estate)	$ 1,505,316	$ 1,564,822
Debt	51,864	52,887
Other liabilities	54,726	46,298
Preferred stock and units	625,339	699,464
Common equity and units	773,387	766,173

Investment in Shurgard Europe

At September 30, 2010, we had a 49% equity investment in Shurgard Europe, which owns 116 facilities directly and has a 20% interest in 72 self-storage facilities located in Europe which operate under the "Shurgard Storage Centers" name.

Our equity in earnings of Shurgard Europe includes our 49% equity share of Shurgard Europe's operations, as well as 49% of the interest and trademark license fees received from Shurgard Europe. The following table sets forth our equity in earnings Shurgard Europe:

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
	(Amounts in thousands)			
Our 49% equity share of Shurgard Europe's net loss	$ (2,435)	$ (2,377)	$ (7,843)	$ (9,677)
Add our 49% equity share of amounts received from Shurgard Europe (a):				
Interest on note receivable	5,712	5,801	17,495	16,344
Trademark license fee	208	207	602	572
Total equity in earnings of Shurgard Europe	$ 3,485	$ 3,631	$ 10,254	$ 7,239

(a) In addition to recording our 49% equity share of Shurgard Europe's operations as equity in earnings of real estate entities, in consolidation we also reclassify 49% of the interest income on our note receivable from Shurgard Europe, and trademark license fees received from Shurgard Europe, from interest and other income to equity in earnings. The remaining 51% of these amounts, which are attributable to the pro-rata share of Shurgard Europe that we do not own, are included in interest and other income.

The following table sets forth selected financial information of Shurgard Europe. These amounts are based upon 100% of Shurgard Europe's balances (on a consolidated basis, including the operations of the 72 self-storage facilities in which Shurgard Europe has a 20% interest), rather than our pro rata share, and are based upon our historical acquired book basis.

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
	(Amounts in thousands)			
Self-storage and ancillary revenues	$ 59,079	$ 59,457	$ 173,146	$ 164,114
Interest and other income (expense)	66	178	(145)	371
Self-storage and ancillary cost of operations	(25,020)	(25,546)	(73,732)	(74,929)
Trademark license fee payable to Public Storage	(423)	(423)	(1,228)	(1,169)
Depreciation and amortization	(17,880)	(18,922)	(54,019)	(53,734)
General and administrative	(2,247)	(1,475)	(5,903)	(6,557)

Interest expense on third party debt	(3,245)	(3,905)	(8,696)	(12,328)
Interest expense on loan payable to Public Storage	(11,659)	(11,839)	(35,704)	(33,356)
Income (expenses) from foreign currency exchange	(415)	466	(845)	851
Discontinued operations	-	-	-	8
Net loss	$ (1,744)	$ (2,009)	$ (7,126)	$ (16,729)
Net income allocated to permanent noncontrolling equity interests in subsidiaries (a)	3,225	2,841	8,880	3,019
Net loss allocated to Shurgard Europe	$ (4,969)	$ (4,850)	$ (16,006)	$ (19,748)

18

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

	At September 30, 2010	At December 31, 2009
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	$ 1,552,376	$ 1,617,579
Total debt to third parties	296,496	328,510
Total debt to Public Storage	515,379	561,703
Other liabilities	79,140	75,074
Equity	$ 661,361	$ 652,292

(a) Includes depreciation expense allocated to the permanent noncontrolling equity interests in subsidiaries totaling $3,036,000 and $2,994,000 in the three months ended September 30, 2010 and 2009, respectively, and $9,033,000 and $8,591,000 in the nine months ended September 30, 2010 and 2009, respectively.

Other Investments

At September 30, 2010, the "Other Investments" include an aggregate common equity ownership of approximately 24% in entities that collectively own 19 self-storage facilities at September 30, 2010. We account for our investments in these entities using the equity method.

The following table sets forth certain condensed financial information (representing 100% of these entities' balances and not our pro-rata share) with respect to the Other Investments' 19 facilities:

	2010	2009
	(Amounts in thousands)	
For the nine months ended September 30,		
Total revenue	$ 12,522	$ 12,512
Cost of operations and other expenses	(4,866)	(4,776)
Depreciation and amortization	(1,856)	(1,515)
Net income	$ 5,800	$ 6,221

	At September 30, 2010	At December 31, 2009
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	$ 36,648	$ 37,386
Total accrued and other liabilities	1,614	876
Total Partners' equity	$ 35,034	$ 36,510

5. Line of Credit and Notes Payable

At September 30, 2010, we have a revolving credit agreement (the “Credit Agreement”) which expires on March 27, 2012, with an aggregate limit with respect to borrowings and letters of credit of $300 million. Amounts drawn on the Credit Agreement bear an annual interest rate ranging from the London Interbank Offered Rate (“LIBOR”) plus 0.35% to LIBOR plus 1.00% depending on our credit ratings (LIBOR plus 0.35% at September 30, 2010). In addition, we are required to pay a quarterly facility fee ranging from 0.10% per annum to 0.25% per annum depending on our credit ratings (0.10% per annum at September 30, 2010). We had no outstanding borrowings on our Credit Agreement at September 30, 2010 or at November 5, 2010. At September 30, 2010, we had undrawn standby letters of credit, which reduce our borrowing capacity with respect to our line of credit by the amount of the letters of credit, totaling $18,127,000 ($18,270,000 at December 31, 2009).

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

The carrying amounts of our notes payable at September 30, 2010 and December 31, 2009 consist of the following (dollar amounts in thousands):

	September 30, 2010	December 31, 2009
	(Amounts in thousands)	
Unsecured Notes Payable:		
5.875% effective and stated note rate, interest only and payable semi-annually, matures in March 2013	$ 186,460	$ 186,460
5.7% effective rate, 7.75% stated note rate, interest only and payable semi-annually, matures in February 2011 (carrying amount includes $479 of unamortized premium at September 30, 2010 and $1,889 at December 31, 2009)	103,796	105,206
Secured Notes Payable:		
4.8% average effective rate fixed rate mortgage notes payable, secured by 100 real estate facilities with a net book value of approximately $624 million at September 30, 2010 and stated note rates between 4.95% and 8.00%, maturing at varying dates between January 2011 and September 2028 (carrying amount includes $7,457 of unamortized premium at September 30, 2010 and $3,983 at December 31, 2009)	299,262	227,223
Total notes payable	$ 589,518	$ 518,889

Substantially all of our debt was acquired in connection with a property or other acquisition, and in such cases an initial premium or discount is established for any difference between the stated note balance and estimated fair value of the note. This initial premium or discount is amortized over the remaining term of the notes using the effective interest method. Estimated fair values are based upon discounting the future cash flows under each respective note at an interest rate that approximates those of loans with similar credit characteristics and term to maturity. These inputs for fair value represent significant unobservable inputs, which are “Level 3” inputs as the term is defined in the Codification.

As described in Note 3, during the nine months ended September 30, 2010, we assumed mortgage debt in connection with the acquisition of real estate facilities. These mortgage notes were recorded at their estimated fair value of approximately $131,698,000 with an estimated average market rate of approximately 3.4% as compared to the actual assumed note balances totaling $126,140,000 with an average contractual interest rate of 5.0%. This initial premium of $5,558,000 is being amortized over the remaining term of the mortgage notes using the effective interest method. Following the acquisition of these properties, we prepaid $51,497,000 of these mortgage notes, recording a gain on repayment of debt totaling $283,000, based upon the difference between approximately $51,214,000 paid and the related net book value (which included $283,000 in note premium) of these loans.

On February 12, 2009, we acquired $110,223,000 face amount of our existing unsecured notes pursuant to a tender offer for an aggregate of $109,622,000 in cash, and recognized a gain of $4,114,000 for the three months ended March 31, 2009.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Our notes payable and our Credit Agreement each have various customary restrictive covenants, all of which have been met at September 30, 2010. At September 30, 2010, approximate principal maturities of our notes payable are as follows (amounts in thousands):

	Unsecured Notes Payable	Secured Notes Payable	Total
2010 (remainder)	$263	$4,842	$5,105
2011	103,533	46,339	149,872
2012	-	70,761	70,761
2013	186,460	79,126	265,586
2014	-	49,112	49,112
Thereafter	-	49,082	49,082
	$290,256	$299,262	$589,518
Weighted average effective rate	5.8 %	4.9 %	5.3 %

We incurred interest expense (including interest capitalized as real estate totaling $320,000 and $547,000, respectively, for the nine months ended September 30, 2010 and 2009) with respect to our notes payable, capital leases and line of credit aggregating $22,775,000 and $23,252,000 for the nine months ended September 30, 2010 and 2009, respectively. These amounts were comprised of $25,986,000 and $26,065,000 in cash paid during the nine months ended September 30, 2010 and 2009, respectively, less $3,211,000 and $2,813,000 in amortization of premium, respectively.

6. Noncontrolling Interests in Subsidiaries

In consolidation, we classify ownership interests in the net assets of each of the Subsidiaries, other than our own, as "noncontrolling interests in subsidiaries." Interests that have the ability to require us, except in an entity liquidation, to redeem the underlying securities for cash, assets, or other securities that would not also be classified as equity are presented on our balance sheet outside of equity. At the end of each reporting period, if the book value is less than the estimated amount to be paid upon a redemption occurring on the related balance sheet date, these interests are increased to adjust to their estimated liquidation value (which approximates fair value), with the offset against retained earnings. All other noncontrolling interests in subsidiaries are presented as a component of equity, "permanent noncontrolling interests in subsidiaries."

Redeemable Noncontrolling Interests in Subsidiaries

At September 30, 2010, the Redeemable Noncontrolling Interests in Subsidiaries represent equity interests in three entities that own in aggregate 14 self-storage facilities. During the nine months ended September 30, 2010 and 2009, these interests were increased by $194,000 and $256,000, respectively, to adjust to their estimated liquidation value (which approximates fair value). We estimate the amount to be paid upon redemption of these interests by applying the related provisions of the governing documents to our estimate of the fair value of the underlying net assets (principally real estate assets).

During the three and nine months ended September 30, 2010, we allocated a total of $238,000 and $695,000, respectively, of income to these interests. During the same periods in 2009, we allocated a total of $247,000 and $753,000, respectively, of income to these interests. During the nine months ended September 30, 2010 and 2009, we paid distributions to these interests totaling $884,000 and $976,000, respectively.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Permanent Noncontrolling Interests in Subsidiaries

At September 30, 2010, the Permanent Noncontrolling Interests in Subsidiaries represent (i) equity interests in 28 entities that own an aggregate of 93 self-storage facilities (the "Other Permanent Noncontrolling Interests in Subsidiaries") and (ii) preferred partnership units (the "Preferred Partnership Interests"). These interests are presented as equity because the holders of the interests do not have the ability to require us to redeem them for cash, other assets, or other securities that would not also be classified as equity.

Other Permanent Noncontrolling Interests in Subsidiaries

The total carrying amount of the Other Permanent Noncontrolling Interests in Subsidiaries was $33,060,000 at September 30, 2010 ($32,974,000 at December 31, 2009). During the three and nine months ended September 30, 2010, we allocated a total of $4,406,000 and $12,418,000, respectively, in income to these interests. During the same periods in 2009, we allocated a total of $4,582,000 and $12,888,000, respectively, in income to these interests. During the nine months ended September 30, 2010 and 2009, we paid distributions to these interests totaling $12,332,000 and $11,661,000, respectively.

Preferred Partnership Interests

At September 30, 2010 and December 31, 2009, our preferred partnership units outstanding were comprised of 4,000,000 units of our 7.250% Series J preferred units ($100,000,000 carrying amount, redeemable May 9, 2011). Subject to certain conditions, the Series J preferred units are convertible into our 7.25% Series J Cumulative Preferred Shares. On October 25, 2010, we repurchased all the Series J preferred units for $100.4 million plus accrued distributions of $492,000.

In the three months ended March 31, 2009, in connection with our acquisition of preferred partnership units from third parties for an aggregate of $153.0 million, we recorded an allocation of $72.0 million in income from these interests in determining net income allocable to Public Storage shareholders based upon the excess of the carrying amount over the amount paid.

During the three and nine months ended September 30, 2010, we allocated a total of $1,813,000 and $5,438,000, respectively, in income to these interests based upon distributions paid. During the same periods in 2009, we allocated a total of $1,813,000 and $7,643,000, respectively, in income to these interests based upon distributions paid.

7. Public Storage Shareholders' Equity

Cumulative Preferred Shares

At September 30, 2010 and December 31, 2009, we had the following series of Cumulative Preferred Shares of beneficial interest outstanding:

22

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

			At September 30, 2010		At December 31, 2009	
Series	Earliest Redemption Date	Dividend Rate	Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
			(Dollar amounts in thousands)			
Series V	9/30/07	7.500 %	-	$ -	6,200	$ 155,000
Series W	10/6/08	6.500 %	5,300	132,500	5,300	132,500
Series X	11/13/08	6.450 %	4,800	120,000	4,800	120,000
Series Y	1/2/09	6.850 %	350,900	8,772	750,900	18,772
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 B	6/30/09	7.125 %	4,350	108,750	4,350	108,750
Series C	9/13/09	6.600 %	4,425	110,625	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	5,650	141,250
Series F	8/23/10	6.450 %	9,893	247,325	9,893	247,325
Series G	12/12/10	7.000 %	4,000	100,000	4,000	100,000
Series H	1/19/11	6.950 %	4,200	105,000	4,200	105,000
Series I	5/3/11	7.250 %	20,700	517,500	20,700	517,500
Series K	8/8/11	7.250 %	16,990	424,756	16,990	424,756
Series L	10/20/11	6.750 %	8,267	206,665	8,267	206,665
Series M	1/9/12	6.625 %	19,065	476,634	19,065	476,634
Series N	7/2/12	7.000 %	6,900	172,500	6,900	172,500
Series O	4/15/15	6.875 %	5,800	145,000	-	-
Total Cumulative Preferred Shares			485,740	$ 3,379,777	886,140	$ 3,399,777

The holders of our Cumulative Preferred Shares have general preference rights with respect to liquidation and quarterly distributions. Holders of the preferred shares, except under certain conditions and as noted below, will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, 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 events of default have been cured. At September 30, 2010, 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 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 of beneficial interest, we classify the liquidation value as preferred equity on our consolidated balance sheet with any issuance costs recorded as a reduction to paid-in capital.

On April 13, 2010, we issued 5,800,000 depositary shares each representing 1/1,000 of our 6.875% Cumulative Preferred Shares, Series O for gross proceeds of $145,000,000.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

On May 18, 2010, we redeemed our remaining Series V Cumulative Preferred Shares at par value plus accrued dividends.

On August 3, 2010, we repurchased 400,000 shares of our 6.850% Cumulative Preferred Shares Series Y, at a total cost of $9,200,000. The carrying value of the shares repurchased totaled $10 million and exceeded the aggregate repurchase cost of $9.2 million by $0.8 million. For purposes of determining net income per share, income allocated to our preferred shareholders was reduced by the $0.8 million for the three months ended September 30, 2010.

During March 2009, we repurchased certain of our Cumulative Preferred Shares in privately negotiated transactions as follows: Series V – 700,000 depositary shares, each representing 1/1,000 of a share of our Cumulative Preferred Shares at a total cost of $13,230,000, Series C – 175,000 depositary shares, each representing 1/1,000 of a share of our Cumulative Preferred Shares at a total cost of $2,695,000 and Series F – 107,000 depositary shares, each representing 1/1,000 of a share of our Cumulative Preferred Shares at a total cost of $1,610,000. The carrying value of the shares repurchased totaled $23.8 million ($24.6 million liquidation preference less $0.8 million of original issuance costs), and exceeded the aggregate repurchase cost of $17.5 million by approximately $6.2 million. For purposes of determining net income per share, income allocated to our preferred shareholders was reduced by the $6.2 million for the three months ended March 31, 2009.

On October 4, 2010, we called for redemption our Series B Cumulative Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, to be paid on November 5, 2010, is $108,750,000. In applying EITF D-42 to this redemption, we will allocate $3,626,000 of income from our common shareholders to the holders of our Preferred Shares, representing the excess of the amount paid over the initial issuance proceeds, in the quarter ending December 31, 2010.

On October 7, 2010, we issued 5,000,000 depositary shares (including the subsequent exercise, in part, of the underwriter's over-allotment option) each representing 1/1,000 of a 6.500% Cumulative Preferred Share of Beneficial Interest, Series P, for gross proceeds of $125,000,000.

Equity Shares, Series A

On March 12, 2010, we called for redemption all of our outstanding shares of Equity Shares, Series A. The redemption occurred on April 15, 2010 at $24.50 per share for aggregate redemption amount of $205.4 million.

During each of the three months ended March 31, 2010 and 2009, June 30, 2009 and September 30, 2009, we allocated income and paid quarterly distributions to the holders of the Equity Shares, Series A totaling $5.1 million ($0.6125 per share) based on 8,377,193 weighted average depositary shares outstanding. Net income allocated to the Equity Shares, Series A for the nine months ended September 30, 2010 also includes $25.7 million ($3.07 per share), representing the excess of cash paid to redeem the securities over the original issuance proceeds. As a result of the redemption on April 15, 2010, no further distributions will be paid for the period subsequent to March 31, 2010.

Equity Shares, Series AAA

On August 31, 2010, we retired all outstanding shares of Equity Shares, Series AAA ("Equity Shares AAA") outstanding. At December 31, 2009, we had 4,289,544 Equity Shares AAA outstanding with a carrying value of

$100,000,000. The Equity Shares AAA ranked on parity with our common shares and junior to our Senior Preferred Shares with respect to general preference rights, and had a liquidation amount equal to 120% of the amount distributed to each common share. Annual distributions per share are equal to the lesser of (i) five times the amount paid per common share or (ii) $2.1564. We have no obligation to pay distributions if no distributions are paid to common shareholders. During 2010 and 2009, we paid quarterly distributions to the holder of the Equity Shares, Series AAA of $0.5391 per share for each of the quarters ended March 31 and June 30. We also paid distributions of $0.5391 per share for the quarter ended September 30, 2009. As a result of the retirement on August 31, 2010, no further distributions will be paid for the period subsequent to June 30, 2010. For all periods presented, the Equity Shares, Series AAA and related dividends are eliminated in consolidation as the shares are held by one of our wholly-owned subsidiaries.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Dividends

The unaudited characterization of dividends for Federal income tax purposes is made based upon earnings and profits of the Company, as defined by the Internal Revenue Code. Common share dividends including amounts paid to our restricted share unitholders totaled $135.7 million ($0.80 per share) and $93.0 million ($0.55 per share), for the three months ended September 30, 2010 and 2009, respectively, and $381.1 million ($2.25 per share) and $278.8 million ($1.65 per share), for the nine months ended September 30, 2010 and 2009, respectively. As noted above, we redeemed all of our outstanding shares of Equity Shares, Series A on April 15, 2010 and no further distributions will be paid subsequent to March 31, 2010. Equity Shares, Series A dividends totaled $5.1 million ($0.6125 per share) for the three months ended March 31, 2010, and $5.1 million ($0.6125 per share) and $15.4 million ($1.838 per share) for the three and nine months ended September 30, 2009, respectively. Preferred share dividends totaled $57.5 million and $58.1 million for the three months ended September 30, 2010 and 2009, respectively, and $174.5 million and $174.3 million for the nine months ended September 30, 2010 and 2009, respectively.

8. Related Party Transactions

Mr. Hughes, the Company's Chairman of the Board of Trustees, and his family (collectively the "Hughes Family") have ownership interests in, and operate approximately 51 self-storage facilities in Canada using the "Public Storage" brand name ("PS Canada") pursuant to a 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. The Hughes Family owns approximately 16.8% of our common shares outstanding at September 30, 2010. We have a right of first refusal to acquire the stock or assets of the corporation that manages the 51 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.

We reinsure risks relating to loss of goods stored by tenants in the self-storage facilities in Canada. During the nine months ended September 30, 2010 and 2009, we received $460,000 and $479,000 (based upon historical exchange rates between the U.S. Dollar and Canadian Dollar in effect as the revenues were earned), respectively, in reinsurance premiums attributable to the Canadian facilities. Since our right to provide tenant reinsurance to the Canadian facilities may be qualified, there is no assurance that these premiums will continue.

The Company and Mr. Hughes are co-general partners in certain consolidated partnerships and affiliated partnerships that are not consolidated. The Hughes Family owns 47.9% of the voting stock and the Company holds 46% of the voting and 100% of the nonvoting stock (representing substantially all the economic interest) of a private REIT. The private REIT owns limited partnership interests in five affiliated partnerships. The Hughes Family also owns limited partnership interests in certain of these partnerships and holds securities in PSB. PS Canada holds approximately a 1.2% 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 as described below. The Company and the Hughes Family receive distributions from these entities in accordance with the terms of the partnership agreements or other organizational documents.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

9. Share-Based Compensation

Stock Options

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

We recognize compensation expense for stock options based upon their estimated fair value on the date of grant amortized over the applicable vesting period (the “Fair Value Method”), net of estimates for future forfeitures. We estimate the fair value of our stock options based upon the Black-Scholes option valuation model.

For the three and nine months ended September 30, 2010, we recorded $825,000 and $2,250,000, respectively, in stock option compensation expense related to options granted after January 1, 2002, as compared to $900,000 and $2,400,000 for the same periods in 2009.

A total of 160,000 stock options were granted during the nine months ended September 30, 2010, 706,151 shares were exercised, and 41,625 shares were forfeited. A total of 3,107,892 stock options were outstanding at September 30, 2010 (3,695,668 at December 31, 2009).

Outstanding stock options are included on a one-for-one basis in our diluted weighted average shares, less a reduction for the treasury stock method applied to a) the average cumulative measured but unrecognized compensation expense during the period and b) the strike price proceeds expected from the employee upon exercise.

Restricted Share Units

Outstanding restricted share units vest ratably over either five or eight years (depending upon the terms of each individual grant) from the date of grant. The employee receives additional compensation equal to the per-share dividends received by common shareholders with respect to restricted share units outstanding. Such compensation is accounted for as dividends paid. Any dividends paid on units which are subsequently forfeited are expensed. Upon vesting, the employee receives common shares equal to the number of vested restricted share units in exchange for the units.

The total value of each restricted share unit grant, based upon the market price of our common shares at the date of grant, is amortized over the service period, net of estimates for future forfeitures, as compensation expense. The related employer portion of payroll taxes is expensed as incurred.

During the nine months ended September 30, 2010, 118,864 restricted share units were granted, 60,319 restricted share units were forfeited and 100,940 restricted share units vested. This vesting resulted in the issuance of 63,169 common shares. In addition, cash compensation totaling $2,660,000 was paid to employees in lieu of 37,771 common shares based upon the market value of the shares at the date of vesting is used to settle the employees’ tax liability generated by the vesting and is charged against paid in capital.

26

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

At September 30, 2010, approximately 505,959 restricted share units were outstanding (548,354 at December 31, 2009). A total of $2,274,000 and $6,652,000 in restricted share unit expense was recorded for the three and nine months ended September 30, 2010, respectively, as compared to $2,460,000 and $7,053,000 for the same periods in 2009. Restricted share unit expense includes amortization of the grant-date fair value of the units reflected as an increase to paid-in capital, as well as $24,000 and $363,000 in related payroll taxes we incurred in the three and nine months ended September 30, 2010, respectively, as compared to $10,000 and $253,000 for the same periods in 2009.

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

10. Segment Information

Our reportable segments reflect significant operating activities that are evaluated separately by management, and are organized based upon their operating characteristics. Each of our segments is evaluated by management based upon net segment income. Net segment income represents net income in conformity with GAAP and our significant accounting policies as denoted in Note 2. We have adjusted the classification of the "Presentation of Segment Information" below with respect to the three and nine months ended September 30, 2009 to be consistent with our current segment definition.

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

Domestic Self-Storage Segment

The Domestic Self-Storage Segment comprises our domestic self-storage rental operations, and is our predominant segment. It includes the operations of the 2,026 self storage facilities owned by the Company and the Subsidiaries, as well as our equity share of the 19 self-storage facilities that we account for on the equity method. None of our interest and other income, interest expense or the related debt, general and administrative expense, or gains and losses on the sale of self-storage facilities is allocated to our Domestic Self-Storage segment because management does not consider these items in evaluating the results of operations of the Domestic Self-Storage segment. At September 30, 2010, the assets of the Domestic Self-Storage segment are comprised principally of our self-storage facilities with a book value of $7.6 billion ($7.6 billion at December 31, 2009), Tenant Intangibles with a book value of approximately $27.0 million ($19.4 million at December 31, 2009), and the Other Investments with a net book value of $13.3 million ($13.8 million at December 31, 2009). Substantially all of our other assets totaling $100.9 million, and our accrued and other liabilities totaling $243.6 million, ($92.9 million and $212.3 million, respectively, at December 31, 2009) are directly associated with the Domestic Self-Storage segment.

Europe Self-Storage Segment

The Europe Self-Storage segment comprises our interest in Shurgard Europe, which has a separate management team that, under the direction of Public Storage and the institutional investor which owns a 51% equity interest in Shurgard Europe, makes the financing, capital allocation, and other significant decisions for this operation. The Europe 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 specific general and administrative expense, disposition gains, and foreign currency exchange gains and losses that management considers in evaluating our investment in Shurgard

Europe. At September 30, 2010, our condensed consolidated balance sheet includes an investment in Shurgard Europe with a book value of $268.6 million ($272.3 million at December 31, 2009) and a loan receivable from Shurgard Europe totaling $515.4 million ($561.7 million at December 31, 2009).

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Commercial Segment

The Commercial segment comprises our investment in PSB, a self-managed REIT with a separate management team that makes the 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 income from PSB, as well as the revenues and expenses of our commercial facilities. At September 30, 2010, the assets of the Commercial segment are comprised principally of our investment in PSB which has a book value of $325.1 million ($326.1 million at December 31, 2009).

Presentation of Segment Information

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

For the three months ended September 30, 2010

	Domestic Self-Storage	Europe Self-Storage	Commercial	Other Items Not Allocated to Segments	Total Consolidated
	(Amounts in thousands)				
Revenues:					
Self-storage facilities	$ 389,402	$ -	$ -	$ -	$ 389,402
Ancillary operations	-	-	3,496	23,092	26,588
Interest and other income	-	6,164	-	611	6,775
	389,402	6,164	3,496	23,703	422,765
Expenses:					
Cost of operations:					
Self-storage facilities	127,672	-	-	-	127,672
Ancillary operations	-	-	1,500	5,591	7,091
Depreciation and amortization	91,993	-	655	-	92,648
General and administrative	-	-	-	8,910	8,910
Interest expense	-	-	-	7,838	7,838
	219,665	-	2,155	22,339	244,159
Income from continuing operations before equity in earnings of real estate	169,737	6,164	1,341	1,364	178,606

entities and foreign currency exchange gain					
Equity in earnings of real estate entities	467	3,485	5,091	-	9,043
Foreign currency exchange gain	-	55,455	-	-	55,455
Income from continuing operations	170,204	65,104	6,432	1,364	243,104
Discontinued operations	-	-	-	2,707	2,707
Net income	$ 170,204	$ 65,104	$ 6,432	$ 4,071	$ 245,811

28

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

For the three months ended September 30, 2009

	Domestic Self-Storage	Europe Self-Storage	Commercial	Other Items Not Allocated to Segments	Total Consolidated
	(Amounts in thousands)				
Revenues:					
Self-storage facilities	$ 377,430	$ -	$ -	$ -	$ 377,430
Ancillary operations	-	-	3,753	24,047	27,800
Interest and other income	-	6,254	-	603	6,857
	377,430	6,254	3,753	24,650	412,087
Expenses:					
Cost of operations:					
Self-storage facilities	120,975	-	-	-	120,975
Ancillary operations	-	-	1,440	6,053	7,493
Depreciation and amortization	85,018	-	652	-	85,670
General and administrative	-	-	-	8,654	8,654
Interest expense	-	-	-	7,289	7,289
	205,993	-	2,092	21,996	230,081
Income from continuing operations before equity in earnings of real estate entities, foreign currency exchange gain and gains on disposition of other real estate investments	171,437	6,254	1,661	2,654	182,006
Equity in earnings of real estate entities	509	3,631	4,684	-	8,824
Foreign currency exchange gain	-	21,429	-	-	21,429
Gains on disposition of real estate investments	-	-	30,293	280	30,573

Income from continuing operations	171,946	31,314	36,638	2,934	242,832
Discontinued operations	-	-	-	1,119	1,119
Net income	$ 171,946	$ 31,314	$ 36,638	$ 4,053	$ 243,951

29

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

For the nine months ended September 30, 2010

	Domestic Self-Storage	Europe Self-Storage	Commercial	Other Items Not Allocated to Segments	Total Consolidated
			(Amounts in thousands)		
Revenues:					
Self-storage facilities	$ 1,127,638	$ -	$ -	$ -	$ 1,127,638
Ancillary operations	-	-	10,709	68,114	78,823
Interest and other income	-	18,837	-	3,186	22,023
	1,127,638	18,837	10,709	71,300	1,228,484
Expenses:					
Cost of operations:					
Self-storage facilities	388,086	-	-	-	388,086
Ancillary operations	-	-	4,349	20,711	25,060
Depreciation and amortization	260,394	-	1,965	-	262,359
General and administrative	-	-	-	29,068	29,068
Interest expense	-	-	-	22,455	22,455
	648,480	-	6,314	72,234	727,028
Income (loss) from continuing operations before equity in earnings of real estate entities, foreign currency exchange loss, gains on disposition of other real estate investments, gain on early retirement of debt and asset impairment charges	479,158	18,837	4,395	(934)	501,456
Equity in earnings of real estate entities	1,259	10,254	16,279	-	27,792
	-	(28,592)	-	-	(28,592)

Foreign currency exchange loss					
Gains on disposition of other real estate investments	-	-	-	396	396
Gain on early retirement of debt	-	-	-	283	283
Asset impairment charges	-	-	-	(1,949)	(1,949)
Income (loss) from continuing operations	480,417	499	20,674	(2,204)	499,386
Discontinued operations	-	-	-	7,518	7,518
Net income	$ 480,417	$ 499	$ 20,674	$ 5,314	$ 506,904

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

For the nine months ended September 30, 2009

	Domestic Self-Storage	Europe Self-Storage	Commercial	Other Items Not Allocated to Segments	Total Consolidated
			(Amounts in thousands)		
Revenues:					
Self-storage facilities	$ 1,118,750	$ -	$ -	$ -	$ 1,118,750
Ancillary operations	-	-	11,124	70,617	81,741
Interest and other income	-	17,608	-	4,398	22,006
	1,118,750	17,608	11,124	75,015	1,222,497
Expenses:					
Cost of operations:					
Self-storage facilities	378,259	-	-	-	378,259
Ancillary operations	-	-	4,309	23,211	27,520
Depreciation and amortization	251,540	-	2,304	-	253,844
General and administrative	-	-	-	26,532	26,532
Interest expense	-	-	-	22,705	22,705
	629,799	-	6,613	72,448	708,860
Income from continuing operations before equity in earnings of real estate entities, foreign currency exchange gain, gains on disposition of other real estate investments and gain on early retirement of debt	488,951	17,608	4,511	2,567	513,637
Equity in earnings of real estate entities	1,443	7,239	30,351	-	39,033
Foreign currency exchange gain	-	19,901	-	-	19,901
	-	-	30,293	3,002	33,295

Gains on disposition of other real estate investments					
Gain on early retirement of debt	-	-	-	4,114	4,114
Income from continuing operations	490,394	44,748	65,155	9,683	609,980
Discontinued operations	-	-	-	(7,213)	(7,213)
Net income	$ 490,394	$ 44,748	$ 65,155	$ 2,470	$ 602,767

31

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

11. Commitments and Contingencies

Legal Matters

Brinkley v. Public Storage, Inc. (filed April 2005) (Superior Court of California – Los Angeles County)

The plaintiff sued the Company on behalf of a purported class of California non-exempt employees based on various California wage and hour laws. Plaintiff sought certification for alleged meal period violations, rest period violations, failure to pay for travel time, failure to pay for mileage reimbursement, and for wage statement violations. The Court certified subclasses based only on alleged meal period and wage statement violations. In June 2007, the Court granted the Company's summary judgment motion as to the causes of action relating to the subclasses certified and dismissed those claims. Plaintiff appealed. The Court of Appeals sustained the dismissal. The California Supreme Court granted review but deferred the matter pending disposition of a related issue in another case.

Other Items

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

Insurance and Loss Exposure

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 coverage and $102 million for general liability 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 and floods 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 $1,000,000 resulting from any one individual event, to a limit of $25,000,000. At September 30, 2010, there were approximately 631,000 certificate holders held by our tenants participating in this program, representing aggregate coverage of approximately $1.4 billion. Because each certificate represents insurance of goods held by a tenant at our self-storage facilities, the geographic concentration of this $1.4 billion in coverage is dispersed throughout all of our U.S. facilities. We rely on a third-party insurance company to provide the insurance and are subject to licensing requirements and regulations in several states.

Operating Lease Obligations

We lease land, equipment and office space under various operating leases. At September 30, 2010, the approximate future minimum rental payments required under our operating leases for each calendar year is as follows: $2 million for the remainder of 2010, $5 million per year in 2011 through 2014 and an aggregate of $65 million in payments thereafter.

PUBLIC STORAGE
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Expenses under operating leases were approximately $1.4 million and $4.9 million for the three and nine months ended September 30, 2010, respectively, as compared to $1.7 million and $5.4 million for the three and nine months ended September 30, 2009, respectively.

12. Subsequent Events

We are currently under contract to acquire four properties for approximately $14.4 million. Two of the properties are in Florida, one is in New Jersey and one is in Ohio. We expect the acquisition of these properties will close late in the fourth quarter of 2010 and that we will incur approximately $0.3 million in transaction costs related to these acquisitions during that period. The acquisition of these facilities is subject to customary closing conditions, and there can be no assurance that we will be able to complete these acquisitions.

On October 7, 2010, we issued 5,000,000 depositary shares (including the subsequent exercise, in part, of the underwriter's over-allotment option) each representing 1/1,000 of a 6.500% Cumulative Preferred Share of Beneficial Interest, Series P, for gross proceeds of $125,000,000.

On October 4, 2010, we called for redemption our Series B Cumulative Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, to be paid on November 5, 2010, is $108,750,000. In applying EITF D-42 to this redemption, we will allocate $3,626,000 of income from our common shareholders to the holders of our Preferred Shares, representing the excess of the amount paid over the initial issuance proceeds, in the quarter ending December 31, 2010.

On October 25, 2010, we repurchased our 7.25% Series J Preferred Partnership units for an aggregate of $100,400,000 ($100,000,000 par value) plus accrued and unpaid dividends. In the quarter ending December 31, 2010, we expect to record an allocation of income pursuant to EITF D-42 to the holders of these units of $400,000, representing the excess paid to redeem these units over the original issuance proceeds. These preferred units were otherwise redeemable at par on May 9, 2011.

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

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

Forward Looking Statements: 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," "would," "should," "may," "estimates" and similar expressions. These forward-looking statements involve known and unknown risks and uncertainties, which may cause Public Storage's actual results and performance to be materially different from those expressed or implied in the forward-looking statements. As a result, you should not rely on 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 II, Item 1A, "Risk Factors" in our Form 10-Q filed with the Securities and Exchange Commission ("SEC") on May 10, 2010, 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, adverse changes in tax, including property tax, real estate and zoning laws and regulations, and the impact of natural disasters;

- 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, 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;

- risks associated with a possible failure by us to qualify as a REIT under the Internal Revenue Code of 1986, as amended;

- disruptions or shutdowns of our automated processes and systems or breaches of our data security;
- 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 expressly required by law. Accordingly, you should use caution in relying on past forward-looking statements to anticipate future results.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with 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 consolidated financial statements and accompanying notes. The notes to our September 30, 2010 condensed consolidated financial statements, primarily Note 2, summarize the significant accounting policies and methods used in the preparation of our consolidated financial statements and related disclosures.

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

Qualification as a REIT – Income Tax Expense: We believe that we have been organized and operated, and we intend to continue to operate, as a qualifying REIT under the Internal Revenue Code and applicable state laws. A REIT generally does not pay corporate level federal income taxes on its REIT taxable income that is distributed to its shareholders, and accordingly, we do not pay federal income tax on the share of our REIT taxable income that is distributed to our shareholders.

We therefore do not estimate or accrue any federal income tax expense for income earned and distributed related to REIT operations. This estimate could be incorrect, because due to the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in our circumstances, we cannot be assured that we actually have satisfied or will satisfy the requirements for taxation as a REIT for any particular taxable year. For any taxable year that we fail or have failed to qualify as a REIT and for which applicable relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income, whether or not we made or make any distributions to our shareholders. Any resulting requirement to pay corporate income tax, including any applicable penalties or interest, could have a material adverse impact on our financial condition or results of operations. Unless entitled to relief under specific statutory provisions, we also would not be eligible to elect REIT status for any taxable year prior to the fifth taxable year which begins after the first taxable year for which REIT status was terminated. There can be no assurance that we would be entitled to any statutory relief.

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

Estimated Useful Lives of Long-Lived Assets: Substantially all of our assets consist of depreciable or amortizable long-lived assets. We record depreciation and amortization expense with respect to these assets based upon their estimated useful lives. Any change in the estimated useful lives of those assets, caused by functional or economic obsolescence or other factors, could have a material adverse impact on our financial condition or results of operations.

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 estimable or because we are not aware of the event. Future events and the results of pending litigation could result in such potential losses becoming probable and estimable, which could have a material adverse impact on our financial condition or results of operations. Significant unaccrued losses that we have determined are at least reasonably possible are described in Note 11 to our September 30, 2010 condensed consolidated financial statements.

Accruals for Operating Expenses: Certain of our expenses are estimated based upon assumptions regarding past and future trends, such as losses for workers compensation and employee health plans, and estimated claims for our tenant reinsurance program. Our property tax expense, which as a real estate operator, represents one of our largest operating expenses totaling approximately $41 million and $124 million in the three and nine months ended September 30, 2010, respectively, 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 were incorrect, our expenses could be misstated.

Valuation of assets and liabilities acquired in business combinations: We have estimated the fair value of real estate, intangible assets, debt, and the other assets and other liabilities acquired in business combinations. We have acquired these assets, in certain cases, with non-cash assets. These estimates are based upon many assumptions, including interest rates, market values of land and buildings, estimated future cash flows from the tenant base in place at the time of the business combination, and the recoverability of certain assets. We believe that the assumptions used were reasonable, however, these assumptions were subject to a significant degree of judgment, and others could use different assumptions and therefore come to materially different conclusions as to the estimated values. If estimated values had been different, our depreciation and amortization expense, interest expense, investments in real estate entities, real estate, debt, and intangible assets could be materially different.

Overview of Management's Discussion and Analysis of Operations

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 upon maximizing revenues and effectively managing expenses at our self-storage facilities, as the Domestic Self-Storage segment contributes 92% of our revenues for the nine months ended September 30, 2010, and is the primary driver of growth in our net income and cash flow from operations.

The remainder of our operations are comprised of our Europe Self-Storage segment, our Commercial segment, and the operations not allocated to any segment, each of which is described in Note 10 to our September 30, 2010 condensed consolidated financial statements.

The self-storage industry is subject to general economic conditions, particularly those that affect the disposable income and spending of consumers, as well as those that affect moving trends. Due to the recessionary pressures in the U.S., demand for self-storage space has been negatively impacted since the fourth quarter of 2008. As a result, revenues in our same store self-storage facilities have declined on a year-over-year basis in each quarter of 2009, with a peak decline of 5.1% in the quarter ended September 30, 2009. Revenue trends improved each quarter since the quarter ended September 30, 2009, with reduced levels of year-over-year revenue declines, and in the most recent quarter ended September 30, 2010 revenues increased 1.2%. While trends have been improving, there can be no assurance that trends will continue to improve, and even with a continuance of the current positive trends it would take several quarters for our revenue levels to equal the amounts achieved prior to the current downturn.

Another important component of our long-term growth is our access to capital and deployment of that capital. Acquisitions of self-storage facilities were minimal during 2008 and 2009. During the nine months ended September 30, 2010, we have acquired 38 self-storage facilities for $225,358,000 primarily located in the Los Angeles area and the surrounding communities of Southern California. We are currently under contract to acquire four additional facilities; however, these acquisitions are subject to contingencies and there can be no assurance that these acquisitions will be completed. We believe that there may be opportunities to acquire additional facilities in 2010 and 2011, because we have seen more facilities come to market and an increase in transaction volume. However, there can be no assurance that the facilities that come to market will be those that we might be interested in acquiring at the prices asked.

Other investments we have made in the past, but are unlikely to make in the short-term because we believe that the acquisition of existing self-storage facilities from third parties is a more attractive option, include i) the development and redevelopment of self-storage facilities, ii) further investment in Shurgard Europe to allow it to develop or acquire facilities or interests in facilities owned by its joint venture partner, iii) further investment in PS Business Parks, and iv) 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 be even be available as investment alternatives.

At September 30, 2010, we had approximately $513.5 million of cash and $102.1 million of short-term investments in high-grade corporate securities. We also have access to our $300 million line of credit which does not expire until March 27, 2012. On October 7, 2010, we raised net proceeds of $121.2 million from the issuance of the Series P Cumulative Preferred Shares. Our capital commitments after September 30, 2010, for the next year of approximately $364.7 million include (i) $100.4 million paid to redeem our Series J Preferred Partnership Units, (ii) $108.8 million to redeem our Series B Cumulative Preferred Shares, (iii) $141.1 million in principal payments on debt and (iv) $14.4 million for the aforementioned acquisition of four facilities. We have no further significant commitments until 2013, when $265.6 million of existing debt comes due.

Our ability to raise additional capital by issuing our common or preferred securities is dependent upon capital market conditions. Capital markets have improved from the severe stress incurred in late 2008 and early 2009. In October 2010 we issued in aggregate $125 million (face amount) of Series P Cumulative Preferred Shares at a rate of 6.500%. Earlier this year (April and May) we issued in aggregate $145 million (face amount) of Series O Cumulative Preferred Shares at a rate of 6.875%. There can be no assurance that market conditions will continue to permit preferred security issuances at amounts and at rates that we will find reasonable. We do not believe, however, that we are dependent on raising capital to fund our operations or meet our obligations.

Results of Operations

Operating Results for the Three Months Ended September 30, 2010 and 2009:

For the three months ended September 30, 2010, net income allocable to our common shareholders was $182.2 million or $1.07 per diluted common share, compared to $173.5 million or $1.03 per diluted common share, for the same period in 2009, representing an increase of $8.7 million or $0.04 per diluted common share. This increase is due to improved operations of our Same Store Facilities, a foreign currency exchange gain of $55.5 million during the quarter ended September 30, 2010 as compared to $21.4 million for the same period in 2009, partially offset by a gain on disposition of real estate investments of $30.3 million related to an equity offering by PS Business Parks, Inc. ("PSB") recorded in the quarter ended September 30, 2009.

Operating Results for the Nine Months Ended September 30, 2010 and 2009:

For the nine months ended September 30, 2010, net income allocable to our common shareholders was $277.8 million or $1.64 per diluted common share, compared to $468.5 million or $2.78 per diluted common share, for the same period in 2009, representing a decrease of $190.7 million or $1.14 per diluted common share. This decrease is primarily due to (i) a foreign currency exchange loss of $28.6 million during the nine months ended September 30, 2010 compared to a $19.9 million gain during the same period in 2009, (ii) an aggregate $31.1 million reduction in income allocated to our common shareholders, and an increase in income allocated to the shareholders of redeemed securities (including our equity share of PSB's redemptions), in applying EITF D-42 to the redemption of securities in the nine months ended September 30, 2010, as compared to a $94.5 million increase in income allocated to our common shareholders from the shareholders of redeemed securities (including our equity share of PSB's redemptions), in applying EITF D-42 to the redemption of securities in the same period in 2009 and (iii) a gain on disposition of real estate investments of $30.3 million related to an equity offering by PSB recorded in the nine months ended September 30, 2009.

Real Estate Operations

Self-Storage Operations: Our self-storage operations are by far the largest component of our operating activities, representing more than 91% of our revenues for the nine months ended September 30, 2010 and 2009, respectively.

To enhance year-over-year comparisons, the table that follows summarizes, and the ensuing discussion describes, the operating results of two groups of facilities that management analyzes: (i) the Same Store facilities, representing the facilities in the Domestic Self-Storage Segment that we have owned and have been operating on a stabilized basis since January 1, 2008 and (ii) all other facilities in the Domestic Self-Storage Segment, which are primarily those consolidated facilities that we have not owned and operated at a stabilized basis since January 1, 2008 such as newly acquired, newly developed, or recently expanded facilities.

Self-Storage Operations Summary	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Percentage Change	2010	2009	Percentage Change
	(Dollar amounts in thousands)					
Rental income:						
Same Store Facilities	$365,090	$360,747	1.2 %	$1,067,309	$1,071,415	(0.4)%
Other Facilities	24,312	16,683	45.7 %	60,329	47,335	27.5 %
	389,402	377,430	3.2 %	1,127,638	1,118,750	0.8 %
Cost of operations:						
Same Store Facilities	119,422	115,678	3.2 %	367,368	361,862	1.5 %
Other Facilities	8,250	5,297	55.7 %	20,718	16,397	26.4 %
	127,672	120,975	5.5 %	388,086	378,259	2.6 %
Net operating income (a):						
Same Store Facilities	245,668	245,069	0.2 %	699,941	709,553	(1.4)%
Other Facilities	16,062	11,386	41.1 %	39,611	30,938	28.0 %
	261,730	256,455	2.1 %	739,552	740,491	(0.1)%
Total depreciation and amortization:						
Same Store Facilities	(75,880)	(75,877)	0.0 %	(226,960)	(227,120)	(0.1)%
Other Facilities	(16,113)	(9,141)	76.3 %	(33,434)	(24,420)	36.9 %
	(91,993)	(85,018)	8.2 %	(260,394)	(251,540)	3.5 %
Total net income	$169,737	$171,437	(1.0)%	$479,158	$488,951	(2.0)%
Number of facilities at period end:						
Same Store Facilities				1,925	1,925	-
Other Facilities				101	62	62.9 %
				2,026	1,987	2.0 %
Net rentable square footage at period end (in thousands):						
Same Store Facilities				120,328	120,328	-
Other Facilities				7,858	5,305	48.1 %
				128,186	125,633	2.0 %

(a) See "Net Operating Income" or NOI below.

Net Operating Income

We refer herein to net operating income ("NOI") of our self-storage facilities, which is a non-GAAP financial measure that excludes the impact of depreciation and amortization expense. Although depreciation and amortization are a component of GAAP net income, we believe that NOI is a meaningful measure of operating performance, because we utilize NOI in making decisions with respect to capital allocations, property performance, and comparing period-to-period and market-to-market property operating results. In addition, we believe the investment community utilizes NOI in determining operating performance and real estate values, and does not consider depreciation expense as it is based upon historical cost. NOI is not a substitute for net operating income after depreciation and amortization or net income in evaluating our operating results. The following reconciles NOI generated by our self-storage segment to our consolidated net income in our September 30, 2010 condensed consolidated financial statements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Amounts in thousands)			
Net operating income:				
Same Store				
Facilities	$245,668	$245,069	$699,941	$709,553
Other Facilities	16,062	11,386	39,611	30,938
Total net operating income from self-storage	261,730	256,455	739,552	740,491
Depreciation and amortization expense:				
Same Store				
Facilities	(75,880)	(75,877)	(226,960)	(227,120)
Other Facilities	(16,113)	(9,141)	(33,434)	(24,420)
Total depreciation and amortization expense from self-storage	(91,993)	(85,018)	(260,394)	(251,540)
Net income (loss):				
Same Store				
Facilities	169,788	169,192	472,981	482,433
Other Facilities	(51)	2,245	6,177	6,518
Total net income from self-storage	169,737	171,437	479,158	488,951
Ancillary operating revenue	26,588	27,800	78,823	81,741
Interest and other income	6,775	6,857	22,023	22,006
Ancillary cost of operations	(7,091)	(7,493)	(25,060)	(27,520)
Depreciation and amortization, commercial	(655)	(652)	(1,965)	(2,304)
General and administrative expense	(8,910)	(8,654)	(29,068)	(26,532)
Interest expense	(7,838)	(7,289)	(22,455)	(22,705)
Equity in earnings of real estate entities	9,043	8,824	27,792	39,033
Foreign currency exchange gain (loss)	55,455	21,429	(28,592)	19,901
Gains on disposition of real estate investments	-	30,573	396	33,295
Gain on early debt retirement	-	-	283	4,114
Asset impairment charges	-	-	(1,949)	-
Discontinued operations	2,707	1,119	7,518	(7,213)
Net income of the Company	$245,811	$243,951	$506,904	$602,767

Same Store Facilities

The "Same Store Facilities" represents those 1,925 facilities that are stabilized and owned since January 1, 2008 and therefore provide meaningful comparisons for 2008, 2009, and 2010. The Same Store Facilities increased from 1,899 at December 31, 2009 to 1,925 at September 30, 2010, as facilities were added that are now stabilized and owned since January 1, 2008. The following table summarizes the historical operating results of these 1,925 facilities (120.3 million net rentable square feet) that represent approximately 94% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at September 30, 2010.

SAME STORE FACILITIES	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Percentage Change	2010	2009	Percentage Change
Revenues:	(Dollar amounts in thousands, except weighted average amounts)					
Rental income	$ 346,643	$ 343,181	1.0 %	$ 1,015,156	$ 1,021,466	(0.6)%
Late charges and administrative fees	18,447	17,566	5.0 %	52,153	49,949	4.4 %
Total revenues (a)	365,090	360,747	1.2 %	1,067,309	1,071,415	(0.4)%
Cost of operations:						
Property taxes	38,599	38,007	1.6 %	117,302	114,087	2.8 %
Direct property payroll	25,023	23,846	4.9 %	74,090	72,645	2.0 %
Media advertising	3,045	3,532	(13.8)%	14,702	19,191	(23.4)%
Other advertising and promotion	5,497	5,042	9.0 %	17,022	15,815	7.6 %
Utilities	10,018	9,538	5.0 %	27,263	27,501	(0.9)%
Repairs and maintenance	10,701	9,204	16.3 %	34,221	29,492	16.0 %
Telephone reservation center	2,872	2,962	(3.0)%	8,486	8,712	(2.6)%
Property insurance	2,376	2,293	3.6 %	7,275	7,677	(5.2)%
Other cost of management	21,291	21,254	0.2 %	67,007	66,742	0.4 %
Total cost of operations (a)	119,422	115,678	3.2 %	367,368	361,862	1.5 %
Net operating income (b)	245,668	245,069	0.2 %	699,941	709,553	(1.4)%
Depreciation and amortization expense	(75,880)	(75,877)	0.0 %	(226,960)	(227,120	