EQUITY LIFESTYLE PROPERTIES INC
Form 10-Q
October 29, 2015

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

o 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: 1-11718

EQUITY LIFESTYLE PROPERTIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	36-3857664 (I.R.S. Employer Identification No.)
Two North Riverside Plaza, Suite 800, Chicago, Illinois (Address of Principal Executive Offices)	60606 (Zip Code)

(312) 279-1400
(Registrant's Telephone Number, Including Area Code)

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 the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

84,298,493 shares of Common Stock as of October 26, 2015.

Equity LifeStyle Properties, Inc.
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Equity LifeStyle Properties, Inc.
Consolidated Balance Sheets
As of September 30, 2015 and December 31, 2014
(amounts in thousands, except share and per share data)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Investment in real estate:		
Land	$1,101,685	$1,091,550
Land improvements	2,773,269	2,734,304
Buildings and other depreciable property	584,132	562,059
	4,459,086	4,387,913
Accumulated depreciation	(1,254,085)	(1,169,492)
Net investment in real estate	3,205,001	3,218,421
Cash	89,395	73,714
Notes receivable, net	36,334	37,137
Investment in unconsolidated joint ventures	17,554	13,512
Deferred financing costs, net	24,263	21,833
Deferred commission expense	30,781	28,589
Escrow deposits, goodwill, and other assets, net	40,062	53,133
Total Assets	$3,443,390	$3,446,339
Liabilities and Equity		
Liabilities:		
Mortgage notes payable	$1,956,246	$2,012,246
Term loan	200,000	200,000
Unsecured lines of credit	—	—
Accrued expenses and accounts payable	96,900	64,520
Deferred revenue – upfront payments from right-to-use contracts	78,103	74,174
Deferred revenue – right-to-use annual payments	10,860	9,790
Accrued interest payable	8,579	9,496
Rents and other customer payments received in advance and security deposits	69,212	67,463
Distributions payable	34,314	29,623
Total Liabilities	2,454,214	2,467,312
Equity:		
Stockholders' Equity:		
Preferred stock, $0.01 par value 9,945,539 shares authorized as of September 30, 2015 and 9,765,900 shares authorized as of December 31, 2014; none issued and outstanding. As of December 31, 2014 includes 179,639 authorized shares 6% Series D Cumulative Preferred stock authorized, none issued and outstanding.	—	—
6.75% Series C Cumulative Redeemable Perpetual Preferred Stock, $0.01 par value, 54,461 shares authorized and 54,458 issued and outstanding as of September 30, 2015 and December 31, 2014 at liquidation value	136,144	136,144
Common stock, $0.01 par value 200,000,000 shares authorized as of September 30, 2015 and December 31, 2014; 84,296,350 and 83,879,779 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	843	838
Paid-in capital	1,039,842	1,029,601

Distributions in excess of accumulated earnings	(253,396)	(254,209)
Accumulated other comprehensive loss	(1,612)	(381)
Total Stockholders' Equity	921,821	911,993
Non-controlling interests – Common OP Units	67,355	67,034
Total Equity	989,176	979,027
Total Liabilities and Equity	$3,443,390	$3,446,339

The accompanying notes are an integral part of the financial statements.

Equity LifeStyle Properties, Inc.
Consolidated Statements of Income and Comprehensive Income
For the Quarters and Nine Months Ended September 30, 2015 and 2014
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues:				
Community base rental income	$110,908	$ 106,967	$330,251	$ 319,514
Rental home income	3,413	3,684	10,526	11,187
Resort base rental income	49,765	44,351	142,837	126,188
Right-to-use annual payments	11,334	11,404	33,260	33,859
Right-to-use contracts current period, gross	3,889	4,168	10,264	10,512
Right-to-use contract upfront payments, deferred, net	(1,701)	(1,989)	(3,929)	(4,303)
Utility and other income	20,027	18,581	58,010	53,070
Gross revenues from home sales	7,878	8,717	24,341	20,455
Brokered resale revenues and ancillary services revenues, net	1,051	1,124	4,045	3,491
Interest income	1,758	1,902	5,314	6,477
Income from other investments, net	1,822	1,869	5,119	6,098
Total revenues	210,144	200,778	620,038	586,548
Expenses:				
Property operating and maintenance	69,227	66,105	194,522	186,018
Rental home operating and maintenance	1,874	1,829	5,232	5,376
Real estate taxes	12,923	12,263	38,169	36,905
Sales and marketing, gross	3,105	3,242	9,139	8,674
Right-to-use contract commissions, deferred, net	(464)	(757)	(1,471)	(2,022)
Property management	11,361	11,086	33,750	32,169
Depreciation on real estate assets and rental homes	28,410	27,831	84,861	83,234
Amortization of in-place leases	616	1,075	1,950	3,791
Cost of home sales	7,868	8,156	23,685	19,679
Home selling expenses	861	513	2,386	1,710
General and administrative	7,225	7,623	22,172	20,178
Property rights initiatives and other	687	751	1,934	2,063
Early debt retirement	—	5,087	16,922	5,087
Interest and related amortization	26,227	27,864	79,648	84,177
Total expenses	169,920	172,668	512,899	487,039
Income before equity in income of unconsolidated joint ventures and gain on sale of property	40,224	28,110	107,139	99,509
Equity in income of unconsolidated joint ventures	1,882	1,237	3,606	3,768
Gain on sale of property	—	929	—	929
Consolidated net income	42,106	30,276	110,745	104,206
Income allocated to non-controlling interests – Common OP Units	(3,136)	(2,219)	(8,191)	(7,929)
Series C Redeemable Perpetual Preferred Stock Dividends	(2,297)	(2,311)	(6,910)	(6,949)
Net income available for Common Shares	$36,673	$ 25,746	$95,644	$ 89,328
Consolidated net income	$42,106	$ 30,276	$110,745	$ 104,206

Other comprehensive (loss) income ("OCI"):				
Adjustment for fair market value of swap	(578)	141	(1,231)	1,068
Consolidated comprehensive income	41,528	30,417	109,514	105,274
Comprehensive income allocated to non-controlling interests – Common OP Units	(3,090)	(2,230)	(8,093)	(8,016)
Series C Redeemable Perpetual Preferred Stock Dividends	(2,297)	(2,311)	(6,910)	(6,949)
Comprehensive income attributable to Common Stockholders	$36,141	$ 25,876	$94,511	$ 90,309

The accompanying notes are an integral part of the financial statements.

Equity LifeStyle Properties, Inc.
Consolidated Statements of Income and Comprehensive Income (Continued)
For the Quarters and Nine Months Ended September 30, 2015 and 2014
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Earnings per Common Share – Basic:				
Net income available for Common Shares	$0.44	$ 0.31	$1.14	$ 1.07
Earnings per Common Share – Fully Diluted:				
Net income available for Common Shares	$0.43	$ 0.31	$1.13	$ 1.06
Distributions declared per Common Share outstanding	$0.375	$ 0.325	$1.125	$ 0.975
Weighted average Common Shares outstanding – basic	84,057	83,531	84,016	83,295
Weighted average Common Shares outstanding – fully diluted	91,940	91,528	91,877	91,471

The accompanying notes are an integral part of the financial statements.

Equity LifeStyle Properties, Inc.
Consolidated Statements of Changes in Equity
For the Nine Months Ended September 30, 2015
(amounts in thousands)
(unaudited)

	Common Stock	Paid-in Capital	6.75% Series C Cumulative Redeemable Perpetual Preferred Stock	Distributions in Excess of Accumulated Earnings	Non-controlling interests – Common OP Units	Accumulated Other Comprehensive Loss	Total Equity
Balance, December 31, 2014	$838	$1,029,601	$136,144	$(254,209)	$67,034	$(381)	$979,027
Conversion of Common OP Units to Common stock	—	220	—	—	(220)	—	—
Issuance of Common Stock through exercise of options	2	3,814	—	—	—	—	3,816
Issuance of Common Stock through employee stock purchase plan	—	882	—	—	—	—	882
Compensation expenses related to restricted stock	—	6,268	—	—	—	—	6,268
Repurchase of Common Stock or Common OP units	—	(73)	—	—	—	—	(73)
Adjustment for Common OP Unitholders in the Operating Partnership	—	(469)	—	—	469	—	—
Adjustment for fair market value of swap	—	—	—	—	—	(1,231)	(1,231)
Net income	—	—	6,910	95,644	8,191	—	110,745
Distributions	—	—	(6,910)	(94,805)	(8,119)	—	(109,834)
Other	3	(401)	—	(26)	—	—	(424)
Balance, September 30, 2015	$843	$1,039,842	$136,144	$(253,396)	$67,355	$(1,612)	$989,176

The accompanying notes are an integral part of the financial statements.

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2015 and 2014
(amounts in thousands)
(unaudited)

	September 30, 2015	September 30, 2014
Cash Flows From Operating Activities:		
Consolidated net income	$110,745	$104,206
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Gain on sale of property	—	(929)
Early debt retirement	16,922	5,087
Depreciation	85,674	83,821
Amortization of in-place leases	1,950	3,791
Amortization of loan costs	3,164	3,655
Debt premium amortization	(2,983)	(3,956)
Equity in income of unconsolidated joint ventures	(3,606)	(3,768)
Distributions of income from unconsolidated joint ventures	3,331	2,869
Amortization of stock-related compensation	6,268	4,998
Revenue recognized from right-to-use contract upfront payments	(6,335)	(6,209)
Commission expense recognized related to right-to-use contracts	2,629	2,100
Long term incentive plan compensation	955	1,425
Recovery of uncollectible rents receivable	(374)	(219)
Changes in assets and liabilities:		
Notes receivable activity, net	21	(1,345)
Deferred commission expense	(4,821)	(4,734)
Escrow deposits, goodwill and other assets	34,494	13,362
Accrued expenses and accounts payable	26,308	15,436
Deferred revenue – upfront payments from right-to-use contracts	10,264	10,512
Deferred revenue – right-to-use annual payments	1,070	(374)
Rents received in advance and security deposits	1,543	(1,386)
Net cash provided by operating activities	287,219	228,342
Cash Flows From Investing Activities:		
Real estate acquisition	(23,687)	(54,645)
Proceeds from disposition of property	—	2,102
Tax-deferred exchange deposit	—	10,576
Investment in unconsolidated joint ventures	(4,000)	(3,489)
Distributions of capital from unconsolidated joint ventures	80	411
Repayments of notes receivable	7,896	12,524
Issuance of notes receivable	(7,711)	(7,266)
Capital improvements	(67,838)	(41,645)
Net cash used in investing activities	(95,260)	(81,432)
Cash Flows From Financing Activities:		
Proceeds from stock options and employee stock purchase plan	4,625	896
Distributions:		
Common Stockholders	(90,466)	(75,077)
Common OP Unitholders	(7,767)	(6,772)
Preferred Stockholders	(6,910)	(6,949)
Principal payments and mortgage debt payoff	(446,661)	(165,578)

New mortgage notes payable financing proceeds	395,323	169,000
Debt issuance and defeasance costs	(23,998)	(11,559)
Other	(424)	(154)
Net cash used in financing activities	(176,278)	(96,193)
Net increase in cash and cash equivalents	15,681	50,717
Cash, beginning of period	73,714	58,427
Cash, end of period	$89,395	$109,144

The accompanying notes are an integral part of the financial statements.

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Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows (continued)
For the Nine Months Ended September 30, 2015 and 2014
(amounts in thousands)
(unaudited)

	September 30, 2015	September 30, 2014
Supplemental Information:		
Cash paid during the period for interest	$80,575	$90,376
Capital improvements – used homes acquired by repossessions	$597	$1,026
Net repayments of notes receivable – used homes acquired by repossessions	$(597)	$(1,026)
Building and other depreciable property – reclassification of rental homes	$21,105	$16,881
Escrow deposits and other assets – reclassification of rental homes	$(21,105)	$(16,881)
Real estate acquisitions:		
Investment in real estate	$(23,900)	$(73,597)
Deferred financing costs, net	—	(180)
Rents and other customer payments received in advance and security deposits	204	2,349
Accrued expenses and accounts payable	62	1,848
Escrow deposits and other assets	(53)	371
Debt assumed and financed on acquisition	—	14,564
Real estate acquisitions, net	$(23,687)	$(54,645)

The accompanying notes are an integral part of the financial statements.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Definition of Terms

Equity LifeStyle Properties, Inc., a Maryland corporation, together with MHC Operating Limited Partnership (the "Operating Partnership") and other consolidated subsidiaries ("Subsidiaries") are referred to herein as "we," "us," and "our." Capitalized terms used but not defined herein are as defined in our Annual Report on Form 10-K ("2014 Form 10-K") for the year ended December 31, 2014.

Note 1 – Summary of Significant Accounting Policies

(a) Basis of Presentation and Principles of Consolidation

We follow accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB." The FASB sets generally accepted accounting principles ("GAAP"), which we follow to ensure that we consistently report our financial condition, results of operations and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (the "Codification").

These unaudited Consolidated Financial Statements have been prepared pursuant to Securities and Exchange Commission ("SEC") rules and regulations. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the financial statements and notes thereto included in the 2014 Form 10-K. The following notes to the Consolidated Financial Statements highlight significant changes to the notes included in the 2014 Form 10-K and present interim disclosures as required by the SEC. The accompanying Consolidated Financial Statements reflect, in the opinion of management, all adjustments and estimates necessary for a fair presentation of the interim financial statements, which are of a normal, recurring nature. Revenues are subject to seasonal fluctuations and accordingly, quarterly interim results may not be indicative of full year results.

The accompanying Consolidated Financial Statements include the consolidation of our accounts. We do not have controlling interests in any of our joint ventures ("JV"), which are therefore treated under the equity method of accounting and not consolidated in our financial statements. The holders of limited partnership interests in the Operating Partnership ("Common OP Unitholders") receive an allocation of net income that is based on their respective ownership percentage of the Operating Partnership which is shown in our Consolidated Financial Statements as Non-controlling interests-Common OP Units. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain 2014 amounts have been reclassified to conform to the 2015 presentation. These reclassifications had no material effect on our Consolidated Balance Sheets or Consolidated Statements of Income and Comprehensive Income.

(b) Identified Intangibles and Goodwill

As of September 30, 2015 and December 31, 2014, the gross carrying amounts of identified intangible assets and goodwill, a component of "Escrow deposits, goodwill and other assets, net" on our consolidated balance sheets, were approximately $12.1 million. As of September 30, 2015 and December 31, 2014, this amount was comprised of approximately $4.3 million of identified intangible assets and approximately $7.8 million of goodwill. Accumulated amortization of identified intangible assets was approximately $2.5 million and $2.2 million as of September 30, 2015 and December 31, 2014, respectively. For each of the quarters ended September 30, 2015 and 2014, amortization expense for the identified intangible assets was approximately $0.1 million. For the nine months ended September 30, 2015 and 2014, amortization expense for the identified intangible assets was approximately $0.3 million.

(c) Restricted Cash

Cash as of September 30, 2015 and December 31, 2014, included approximately $5.0 million of restricted cash for the payment of capital improvements, insurance or real estate taxes.

(d) Fair Value of Financial Instruments

Our financial instruments include notes receivable, accounts receivable, accounts payable, other accrued expenses, interest rate swaps and mortgage notes payable. We disclose the estimated fair value of our financial instruments according to a fair value hierarchy (Level 1, 2 and 3).

Our mortgage notes payable and term loan had a carrying value of approximately $2.2 billion as of September 30, 2015 and December 31, 2014, and a fair value of approximately $2.2 billion and $2.3 billion as of September 30, 2015 and December 31, 2014, respectively. The fair value is measured using quoted prices and observable inputs from similar liabilities (Level 2). At September 30, 2015 and December 31, 2014, our cash flow hedge of interest rate risk included in accrued expenses and accounts payable was measured using quoted prices and observable inputs from similar assets and liabilities (Level 2). We consider our

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 1 – Summary of Significant Accounting Policies (continued)

own credit risk as well as the credit risk of our counterparties when evaluating the fair value of our derivative. The fair values of our notes receivable, accounts receivable, accounts payable, other accrued expenses and interest rate swaps approximate their carrying or contract values.

(e) Deferred Financing Costs, net

Deferred financing costs, net include fees and costs incurred to obtain long-term financing. The costs are being amortized over the terms of the respective loans on a basis that approximates level yield. Unamortized deferred financing fees are written-off when debt is retired before the maturity date. Upon amendment of the line of credit or refinancing of mortgage debt, unamortized deferred financing fees are accounted for in accordance with Codification Sub-Topic Modifications and Extinguishments ("FASB ASC 470-50-40"). Accumulated amortization for such costs was $32.7 million and $29.8 million at September 30, 2015 and December 31, 2014, respectively.

(f) Recent Accounting Pronouncements

In May 2014, the FASB issued ("ASU 2014-09") Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 does not apply to lease contracts accounted for under ASC 840, Leases. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. On July 9, 2015, the FASB deferred the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB will permit early adoption of the standard, but not before the original effective date of December 15, 2016. We are currently evaluating the impact, if any, the adoption of this standard will have on our consolidated financial statements.

In February 2015, the FASB issued ("ASU 2015-02") Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 and is to be applied retrospectively, with early adoption permitted. We are currently evaluating the impact, if any, of the adoption of ASU 2015-02 on our consolidated financial statements.

In April 2015, the FASB issued ("ASU 2015-03") Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs be deducted from the carrying value of the financial liability and not recorded as separate assets, classified as deferred financing costs. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. In August 2015, the FASB issued ("ASU 2015-15") Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 expands guidance provided in ASU 2015-03 and states that presentation of costs associated with securing a revolving line of credit as an asset is permitted, regardless of whether a balance is outstanding. The new standards are effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The adoption of ASU 2015-03 and ASU 2015-15 will only affect the presentation of our consolidated balance sheet.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 2 – Earnings Per Common Share

The following table sets forth the computation of the basic and diluted earnings per Common Share for the quarters and nine months ended September 30, 2015 and 2014 (amounts in thousands, except per share data):

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerators:				
Net Income Available for Common Shares:				
Net income available for Common Shares – basic	$36,673	$25,746	$95,644	$89,328
Amounts allocated to dilutive securities	3,136	2,219	8,191	7,929
Net income available for Common Shares – fully diluted	$39,809	$27,965	$103,835	$97,257
Denominator:				
Weighted average Common Shares outstanding – basic	84,057	83,531	84,016	83,295
Effect of dilutive securities:				
Redemption of Common OP Units for Common Shares	7,212	7,254	7,220	7,471
Stock options and restricted shares	671	743	641	705
Weighted average Common Shares outstanding – fully diluted	91,940	91,528	91,877	91,471
Earnings per Common Share – Basic:				
Net income available for Common Shares	$0.44	$0.31	$1.14	$1.07
Earnings per Common Share – Fully Diluted:				
Net income available for Common Shares	$0.43	$0.31	$1.13	$1.06

Note 3 – Common Stock and Other Equity Related Transactions

The following regular quarterly distributions have been declared on our depositary shares (each representing 1/100 of a share of our Series C Preferred Stock) and paid to our preferred shareholders for the nine months ended September 30, 2015:

Distribution Amount Per Share	For the Quarter Ending	Stockholder Record Date	Payment Date
$0.421875	March 31, 2015	March 20, 2015	March 31, 2015
$0.421875	June 30, 2015	June 19, 2015	June 30, 2015
$0.421875	September 30, 2015	September 18, 2015	September 30, 2015

The following regular quarterly distributions have been declared and paid to our Common Stockholders and Common OP Unitholders for the nine months ended September 30, 2015:

Distribution Amount Per Share	For the Quarter Ending	Stockholder Record Date	Payment Date
$0.375	March 31, 2015	March 27, 2015	April 10, 2015
$0.375	June 30, 2015	June 26, 2015	July 10, 2015
$0.375	September 30, 2015	September 25, 2015	October 9, 2015

Note 4 – Investment in Real Estate

Acquisitions

All acquisitions have been accounted for utilizing the acquisition method of accounting in accordance with FASB ASC 805 and, accordingly, the results of operations of acquired assets are included in the Consolidated Statements of Income and Comprehensive Income from the dates of acquisition. Certain purchase price adjustments may be made within one year following the acquisition and applied retroactively to the date of acquisition.

On June 26, 2015, we completed the acquisition of Miami Everglades, a 303-Site RV resort, located in Miami, Florida. The total purchase price of $11.6 million was funded with available cash.

On February 9, 2015, we completed the acquisition of two properties, Bogue Pines, a 150-Site manufactured home community, and Whispering Pines, a 278-Site RV resort, both located in coastal North Carolina. The total purchase price of approximately $12.3 million was funded with available cash.

During the year ended December 31, 2014, we acquired seven RV resorts collectively containing 3,868 Sites for a combined purchase price of approximately $85.7 million. As a result of these acquisitions, we assumed approximately $32.3 million of mortgage debt, excluding note premiums of approximately $2.3 million. The remaining purchase price was funded with available

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 4 – Investment in Real Estate (continued)

cash. We also exercised a purchase option and purchased land comprising a portion of our Colony Cove Property which was part of a portfolio of Properties acquired in 2011. The total purchase price of $35.9 million was funded with available cash. In connection with the acquisition of the land, we terminated the ground lease related to the Property. During the quarter ended March 31, 2014, we received the final distribution of 51,290 shares of our common stock from the escrow funded by the seller.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the acquisitions for the nine months ended September 30, 2015 and December 31, 2014, which we determined using Level-2, for mortgage notes payable and other liabilities, and Level-3 inputs (amounts in thousands):

	Nine months ended September 30, 2015	Year Ended December 31, 2014
Assets acquired		
Land	$8,995	$66,390
Buildings and other depreciable property	13,977	52,329
Manufactured homes	306	1,086
In-place leases	622	2,561
Net investment in real estate	23,900	122,366
Other assets	53	1,197
Total Assets acquired	$23,953	$123,563
Liabilities assumed		
Mortgage notes payable	$—	$34,559
Other liabilities	266	6,712
Total Liabilities assumed	$266	$41,271
Net assets acquired	$23,687	$82,292

Dispositions and real estate held for disposition

On July 11, 2014, we received payment of approximately $2.1 million from the Arizona Department of Transportation related to the value of certain property taken for state highway purposes at our Seyenna Vista property in Maricopa County, Arizona, of which $0.9 million was in excess of our basis and recognized as a gain on sale of property in the third quarter of 2014.

As of September 30, 2015, we have no properties designated as held for disposition pursuant to FASB ASC 360-10-35.

Note 5 – Investment in Unconsolidated Joint Ventures

We recorded approximately $3.6 million and $3.8 million (each net of approximately $0.8 million and $0.7 million of depreciation expense, respectively) of equity in income from unconsolidated joint ventures for each of the nine months ended September 30, 2015 and 2014, respectively. We received approximately $3.4 million and $3.3 million in distributions from these joint ventures for the nine months ended September 30, 2015 and 2014, respectively. Approximately $1.4 million and $2.0 million of the distributions made to us, using proceeds generated by refinancing transactions, exceeded our basis in joint ventures and as such, were recorded as income from unconsolidated joint ventures for the nine months ended September 30, 2015 and 2014, respectively.

On February 12, 2015, we contributed approximately $4.0 million to the ECHO JV which brought our total investment to $10.0 million.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 5 – Investment in Unconsolidated Joint Ventures (continued)

The following table summarizes our investment in unconsolidated joint ventures as of September 30, 2015 and December 31, 2014 (investment amounts in thousands with the number of Properties shown parenthetically):

				Investment as of		JV Income (loss) for the Nine Months Ended	
Investment	Location	Number of Sites	Economic Interest [a]	September 30, 2015	December 31, 2014	September 30, 2015	September 30, 2014
Meadows	Various (2,2)	1,077	50%	$137	$—	$1,176	$1,703
Lakeshore	Florida (2,2)	342	65%	17	9	1,694	1,288
Voyager	Arizona (1,1)	1,706	50% [b]	7,126	7,201	764	724
Other	Various	—	20% [c]	—	—	—	25
ECHO JV	Various	—	50%	10,274	6,302	(28)	28
		3,125		$17,554	$13,512	$3,606	$3,768

(a) The percentages shown approximate our economic interest as of September 30, 2015. Our legal ownership interest may differ.

(b) Voyager joint venture primarily consists of a 50% interest in Voyager RV Resort and 33% interest in the utility plant servicing the Property.

(c) During the quarter ended September 30, 2014, we received payment of $0.1 million for the sale of our remaining 20% interest in the Time Shares Only joint venture.

Note 6 - Notes Receivable

In certain cases, we purchase loans made by others to finance the sales of homes to our customers ("Chattel Loans"). Our Chattel Loans receivable require monthly principal and interest payments and are collateralized by homes at certain of the Properties. As of September 30, 2015 and December 31, 2014, we had approximately $18.3 million and $18.9 million, respectively, of these Chattel Loans included in notes receivable. As of September 30, 2015, the Chattel Loans receivable had a stated per annum average rate of approximately 7.8%, with a yield of 21.7%, and had an average term remaining of approximately 11 years. These Chattel Loans are recorded net of allowances of approximately $0.3 million as of September 30, 2015 and $0.4 million as of December 31, 2014.

We also provide financing for non-refundable upgrades to existing right-to-use contracts ("Contracts Receivable"). As of September 30, 2015 and December 31, 2014, we had approximately $18.0 million and $18.2 million, respectively, of Contracts Receivable, net of allowances of approximately $0.6 million. The Contracts Receivable have an average stated interest rate of 16.1% per annum, have a weighted average term remaining of approximately four years and require monthly payments of principal and interest.

Note 7 – Borrowing Arrangements

Mortgage Notes Payable

As of September 30, 2015 and December 31, 2014, we had outstanding mortgage indebtedness of approximately $2.0 billion. The weighted average interest rate, including the impact of premium/discount amortization on this mortgage indebtedness, for the nine months ended September 30, 2015 was approximately 5.0% per annum. The debt bears interest at stated rates of 3.5% to 8.9% per annum and matures on various dates ranging from 2016 to 2040. The debt encumbered a total of 127 and 137 of our Properties as of September 30, 2015 and December 31, 2014, respectively, and the carrying value of such Properties was approximately $2.2 billion and $2.4 billion, respectively, as of such dates.

During the nine months ended September 30, 2015, as part of our previously announced refinancing plan, we closed on loans with total gross proceeds of $395.3 million. The loans have a weighted average maturity of 21 years, carry a weighted average interest rate of 3.93% per annum and were secured by 26 manufactured home properties and RV

resorts. Proceeds from the financings were used to retire by defeasance and prepayment approximately $370.2 million of loans maturing at various times throughout 2015 and 2016, with a weighted average interest rate of 5.58% per annum, which were secured by 32 manufactured home properties and RV resorts. We incurred approximately $17.0 million in early debt retirement expense related to these loans. We also paid off two maturing mortgage loans totaling approximately $48.7 million, with a weighted average interest rate of 5.73% per annum, secured by one manufactured home property and three RV resorts.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 7 – Borrowing Arrangements (continued)

Term Loan
As of September 30, 2015 and December 31, 2014, our $200.0 million Term Loan (the “Term Loan”) matures on January 10, 2020 and has an interest rate of LIBOR plus 1.35% to 1.95% per annum and, subject to certain conditions, may be prepaid at any time without premium or penalty. The spread over LIBOR is variable quarterly based on leverage measured quarterly throughout the loan term. The Term Loan contains customary representations, warranties, and negative and affirmative covenants, and provides for acceleration of principal and payment of all other amounts payable thereunder upon the occurrence of certain events of default. In connection with the Term Loan in 2014, we also entered into a three year LIBOR Swap Agreement (the “2014 Swap”) allowing us to trade the variable interest rate for a fixed interest rate on the Term Loan (See Note 8 to the Consolidated Financial Statements for further information on the accounting for the 2014 Swap).
Unsecured Line of Credit
As of September 30, 2015 and December 31, 2014, our unsecured Line of Credit (“LOC”) had a borrowing capacity of $400.0 million, with the option to increase the borrowing capacity by $100.0 million, subject to certain conditions, with no amounts outstanding as of those dates. The LOC bears interest at a rate of LIBOR plus 1.20% to 1.65%, requires an annual facility fee of 0.20% to 0.35% and matures on July 17, 2018, with an option to extend for one additional year, subject to certain conditions. The spread over LIBOR is variable quarterly based on leverage throughout the loan term. In 2014, we incurred commitment and arrangement fees of approximately $3.5 million to enter into the LOC and extend the Term Loan.
As of September 30, 2015, we are in compliance in all material respects with the covenants in our borrowing arrangements.
Note 8 – Derivative Instruments and Hedging Activities
Cash Flow Hedges of Interest Rate Risk
In connection with our Term Loan, we entered into the 2014 Swap (see Note 7 to the Consolidated Financial Statements for information about the Term Loan related to the 2014 Swap) allowing us to trade the variable interest rate for a fixed interest rate on the Term Loan. The 2014 Swap fixes the underlying LIBOR rate on the Term Loan at 1.04% per annum for the first three years and matures on August 1, 2017. Based on the leverage as of September 30, 2015, our spread over LIBOR is 1.35% resulting in an estimated all-in interest rate of 2.39% per annum.
We have designated the 2014 Swap as a cash flow hedge. No gain or loss was recognized in the Consolidated Statements of Income and Comprehensive Income related to hedge ineffectiveness or to amounts excluded from effectiveness testing on our cash flow hedge during the quarters and nine months ended September 30, 2015 and 2014. Amounts reported in accumulated other comprehensive loss on the Consolidated Balance Sheets related to derivatives are reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, we estimate that an additional $1.3 million will be reclassified as an increase to interest expense. This estimate may be subject to change as the underlying LIBOR rate changes.
Derivative Instruments and Hedging Activities
The table below presents the fair value of our derivative financial instrument as well as our classification on our Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014 (amounts in thousands):

	Balance Sheet Location	September 30, 2015	December 31, 2014
Interest Rate Swap	Accrued expenses and accounts payable	$1,612	$381

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement
The tables below present the effect of our derivative financial instrument on the Consolidated Statements of Income and Comprehensive Income for the quarters ended September 30, 2015 and 2014 (amounts in thousands):

Derivatives in Cash Flow Hedging Relationship	Amount of loss recognized in OCI on derivative	Location of loss reclassified from	Amount of loss reclassified from

	(effective portion)		accumulated OCI into income (effective portion)	accumulated OCI into income (effective portion)	
	September 30, 2015	September 30, 2014		September 30, 2015	September 30, 2014
Interest Rate Swap	$ 1,012	$ 233	Interest Expense	$ 434	$ 374

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Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 8 – Derivative Instruments and Hedging Activities (continued)

The tables below present the effect of our derivative financial instrument on the Consolidated Statements of Income and Comprehensive Income for the nine months ended September 30, 2015 and 2014 (amounts in thousands):

Derivatives in Cash Flow Hedging Relationship	Amount of loss recognized in OCI on derivative (effective portion)		Location of loss reclassified from accumulated OCI into income (effective portion)	Amount of loss reclassified from accumulated OCI into income (effective portion)	
	September 30, 2015	September 30, 2014		September 30, 2015	September 30, 2014
Interest Rate Swap	$2,535	$ 256	Interest Expense	$1,304	$ 1,324

We determined that no adjustment was necessary for nonperformance risk on our derivative obligation. As of September 30, 2015, we have not posted any collateral related to this agreement.

Note 9 – Deferred Revenue-entry of right-to-use contracts and Deferred Commission Expense

As of September 30, 2015 and December 31, 2014, the components of the change in deferred revenue-entry of right-to-use contracts and deferred commission expense are as follows (amounts in thousands):

	Nine Months Ended September 30,	
	2015	2014
Deferred revenue–upfront payments from right-to-use contracts, as of January 1,	$74,174	$68,673
Right-to-use contracts current period, gross	10,264	10,512
Revenue recognized from right-to-use contract upfront payments	(6,335)	(6,209)
Right-to-use contract upfront payments, deferred, net	3,929	4,303
Deferred revenue–upfront payments from right-to-use contracts, as of September 30,	$78,103	$72,976
Deferred commission expense, as of January 1,	$28,589	$25,251
Deferred commission expense	4,821	4,734
Commission expense recognized	(2,629)	(2,100)
Net increase in deferred commission expense	2,192	2,634
Deferred commission expense, as of September 30,	$30,781	$27,885

Note 10 – Equity Incentive Awards

Stock-based compensation expense, reported in “General and administrative” on the Consolidated Statements of Income and Comprehensive Income, for the quarters ended September 30, 2015 and 2014 was approximately $2.3 million and $2.6 million, respectively, and for the nine months ended September 30, 2015 and 2014 was approximately $6.3 million and $5.0 million, respectively.

Our 2014 Equity Incentive Plan (the “2014 Plan”) was adopted by our Board of Directors on March 11, 2014 and approved by our stockholders on May 13, 2014. Pursuant to the 2014 Plan, our officers, directors, employees and consultants may be awarded (i) shares of common stock (“Restricted Stock Grants”), (ii) options to acquire shares of common stock (“Options”), including non-qualified stock options and incentive stock options within the meaning of Section 422 of the Internal Revenue Code, and (iii) other forms of equity awards, subject to conditions and restrictions determined by the Compensation, Nominating, and Corporate Governance Committee of our Board of Directors (the “Compensation Committee”). The Compensation Committee will determine the vesting schedule, if any, of each Restricted Stock Grant or Option and the term of each Option, which term shall not exceed ten years from the date of grant. Shares that do not vest are forfeited. Dividends paid on restricted stock are not returnable, even if the underlying stock does not entirely vest. A maximum of 3,750,000 shares of common stock are available for grant under the 2014 Plan. As of September 30, 2015, 3,405,794 shares remained available for grant.

Grants under the 2014 Plan are made by the Compensation Committee, which determines the individuals eligible to receive awards, the types of awards, and the terms, conditions and restrictions applicable to any award.

Grants Issued

On June 1, 2015, we awarded Restricted Stock Grants for 3,000 shares of common stock at a fair market value of approximately $0.2 million to a certain member of our senior management. This Restricted Stock Grant will vest on December 31, 2015.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 10 – Equity Incentive Awards (continued)

On May 12, 2015, we awarded Restricted Stock Grants for 29,440 shares of common stock at a fair market value of approximately $1.6 million to certain members of our Board of Directors for services as Director rendered for the remainder of 2015. One-third of the shares of restricted common stock covered by these awards will vest on each of November 12, 2015, May 12, 2016, and May 12, 2017.

On February 2, 2015, we awarded Restricted Stock Grants for 78,000 shares of common stock at a fair market value of approximately $4.3 million to certain members of our senior management. These Restricted Stock Grants will vest on December 31, 2015.

On February 2, 2015, we awarded Restricted Stock Grants for 47,100 shares of common stock at a fair market value of approximately $2.6 million to certain members of our Board of Directors for services to be rendered in 2015. One-third of the shares of restricted common stock covered by these awards will vest on each of December 31, 2015, December 31, 2016, and December 31, 2017.

The fair market value of our restricted stock grants is recorded as compensation expense and paid in capital over the vesting period.

Note 11 – Long-Term Cash Incentive Plan

On January 24, 2013, our Compensation Committee approved a Long-Term Cash Incentive Plan Award (the “2013 LTIP”) to provide a long-term cash bonus opportunity to certain members of our management. The 2013 LTIP was approved by the Compensation Committee pursuant to the authority set forth in the Long-Term Cash Incentive Plan approved by our Board of Directors on May 15, 2007. The total cumulative payment for all participants (the “Eligible Payment”) is based upon certain performance conditions being met over a three year period ending December 31, 2015. The Compensation Committee has responsibility for administering the 2013 LTIP and may use its reasonable discretion to adjust the performance criteria or Eligible Payments to take into account the impact of any major or unforeseen transaction or event. Our executive officers are not participants in the 2013 LTIP. The Eligible Payment will be paid in cash upon completion of our annual audit for the 2015 fiscal year and upon satisfaction of the vesting conditions as outlined in the 2013 LTIP and, including employer costs, is currently estimated to be approximately $5.1 million. As of September 30, 2015, we had accrued compensation expense of approximately $4.8 million for the 2013 LTIP, including approximately $1.0 million and $1.4 million in the nine months ended September 30, 2015 and 2014, respectively.

The amount accrued for the 2013 LTIP reflects our evaluation of the 2013 LTIP based on forecasts and other available information and is subject to performance in line with forecasts and final evaluation and determination by the Compensation Committee. There can be no assurances that our estimates of the probable outcome will be representative of the actual outcome.

Note 12 - Commitments and Contingencies

California Rent Control Litigation

As part of our effort to realize the value of our Properties subject to rent control, we previously initiated lawsuits against certain localities in California with the goal of achieving a level of regulatory fairness in California’s rent control jurisdictions, and in particular those jurisdictions that prohibit increasing rents to market upon turnover. Such regulations allow tenants to sell their homes for a price that includes a premium above the intrinsic value of the homes. The premium represents the value of the future discounted rent-controlled rents, which is fully capitalized into the prices of the homes sold. In our view, such regulations result in a transfer to the tenants of the value of our land, which would otherwise be reflected in market rents. We have discovered through the litigation process that certain municipalities considered condemning our Properties at values well below the value of the underlying land. In our view, a failure to articulate market rents for Sites governed by restrictive rent control would put us at risk for condemnation or eminent domain proceedings based on artificially reduced rents. Such a physical taking, should it occur, could represent substantial lost value to stockholders. We are cognizant of the need for affordable housing in the jurisdictions, but assert that restrictive rent regulation does not promote this purpose because tenants pay to their

sellers as part of the purchase price of the home all the future rent savings that are expected to result from the rent control regulations, eliminating any supposed improvement in the affordability of housing. In a more well-balanced regulatory environment, we would receive market rents that would eliminate the price premium for homes, which would trade at or near their intrinsic value. Such efforts have included the following matters:

We sued the City of San Rafael on October 13, 2000 in the U.S. District Court for the Northern District of California, challenging its rent control ordinance on constitutional grounds. While the trial court found the rent control ordinance unconstitutional, the United States Court of Appeals for the Ninth Circuit reversed the trial court and ruled that the ordinance had not unconstitutionally taken our property. On September 3, 2013, we filed a petition for review by the U.S. Supreme Court, which

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 12 – Commitments and Contingencies (continued)

was denied.

On January 31, 2012, we sued the City of Santee in the United States District for the Southern District of California challenging its rent control ordinance on constitutional grounds. On September 26, 2013, we entered a settlement agreement with the City pursuant to which we are able to increase Site rents at the Meadowbrook community through January 1, 2034 as follows: (a) a one-time 2.5% rent increase on all Sites in January 2014; plus (b) annual rent increases of 100% of the consumer price index (CPI) beginning in 2014; and (c) a 10% increase in the rent on a site upon turnover of that site. Absent the settlement, the rent control ordinance limited us to annual rent increases of at most 70% of CPI with no increases on turnover of a site.

Colony Park

On December 1, 2006, a group of tenants at our Colony Park Property in Ceres, California filed a complaint in the California Superior Court for Stanislaus County alleging that we had failed to properly maintain the Property and had improperly reduced the services provided to the tenants, among other allegations. We answered the complaint by denying all material allegations and filed a counterclaim for declaratory relief and damages. The case proceeded in Superior Court because our motion to compel arbitration was denied and the denial was upheld on appeal. Trial of the case began on July 27, 2010. After just over three months of trial in which the plaintiffs asked the jury to award a total of approximately $6.8 million in damages, the jury rendered verdicts awarding a total of less than $44,000 to six out of the 72 plaintiffs, and awarding nothing to the other 66 plaintiffs. The plaintiffs who were awarded nothing filed a motion for a new trial or alternatively for judgment notwithstanding the jury’s verdict, which the Court denied on February 14, 2011. All but three of the 66 plaintiffs to whom the jury awarded nothing appealed. Oral argument in the appeal was held on September 19, 2013 and the matter was taken under submission by the California Court of Appeal. By orders entered on December 14, 2011, the Superior Court awarded us approximately $2.0 million in attorneys’ fees and other costs jointly and severally against the plaintiffs to whom the jury awarded nothing, and awarded no attorneys’ fees or costs to either side with respect to the six plaintiffs to whom the jury awarded less than $44,000. Plaintiffs filed an appeal from the approximately $2.0 million award of our attorneys’ fees and other costs. Oral argument in that appeal was also held on September 19, 2013. On December 3, 2013, the Court of Appeal issued a partially published opinion that rejected all of plaintiffs’ claims on appeal except one, relating to whether the park’s rules prohibited the renting of spaces to recreational vehicles. The Court of Appeal reversed the judgment on the recreational vehicle issue and remanded for further proceedings regarding that issue. Because the judgment was reversed, the award of attorney’s fees and other costs was also reversed. Both sides filed rehearing petitions with the Court of Appeal. On December 31, 2013, the Court of Appeal granted the defendants’ rehearing petition and ordered the parties to submit supplemental briefing, which the parties did. On March 10, 2014, the Court of Appeal issued a new partially published opinion in which it again rejected all of the plaintiffs’ claims on appeal except the one relating to whether the park’s rules prohibited the renting of spaces to recreational vehicles, reversing the judgment on that issue and remanding it for further proceedings, and accordingly vacating the award of attorney’s fees and other costs. As of result of a settlement we reached with the plaintiffs remaining in the litigation, pursuant to which among other provisions the parties agreed to mutually release all of their claims in the litigation without any payment by us, on September 28, 2015 the plaintiffs filed with the Superior Court a request for dismissal with prejudice of the entire action.

California Hawaiian

On April 30, 2009, a group of tenants at our California Hawaiian Property in San Jose, California filed a complaint in the California Superior Court for Santa Clara County, Case No. 109CV140751, alleging that we have failed to properly maintain the Property and have improperly reduced the services provided to the tenants, among other allegations. We moved to compel arbitration and stay the proceedings, to dismiss the case, and to strike portions of the complaint. By order dated October 8, 2009, the Court granted our motion to compel arbitration and stayed the court proceedings pending the outcome of the arbitration. The plaintiffs filed with the California Court of Appeal a petition for a writ seeking to overturn the trial court’s arbitration and stay orders. On May 10, 2011, the Court of Appeal

granted the petition and ordered the trial court to vacate its order compelling arbitration and to restore the matter to its litigation calendar for further proceedings. On May 24, 2011, we filed a petition for rehearing requesting the Court of Appeal to reconsider its May 10, 2011 decision. On June 8, 2011, the Court of Appeal denied the petition for rehearing. On June 16, 2011, we filed with the California Supreme Court a petition for review of the Court of Appeal's decision. On August 17, 2011, the California Supreme Court denied the petition for review.
The trial commenced on January 27, 2014. On April 14-15, 2014, the jury entered verdicts against our Operating Partnership of approximately $15.3 million in compensatory damages and approximately $95.8 million in punitive damages. On October 6, 2014, we filed a motion for a new trial and a motion for partial judgment notwithstanding the jury's verdict. On December 5, 2014, after briefing and a hearing on those motions, the trial court entered an order granting us a new trial on the issue of damages while upholding the jury's determination of liability. As grounds for the ruling, the court cited excessive damages and insufficiency of

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 12 – Commitments and Contingencies (continued)

the evidence to support the verdict as to the amount of damages awarded by the jury. The Court's ruling overturned the April 2014 verdicts of $15.3 million in compensatory damages and $95.8 million in punitive damages. On January 28, 2015, we and the plaintiffs each served notices of appeal from the trial court's December 5, 2014 order. The Court of Appeal has issued an order setting the briefing sequence and has ordered commencement of the briefing. We intend to continue to vigorously defend ourselves in this litigation.

At September 30, 2015, based on the information available to us, a material loss was neither probable nor estimable. We have taken into consideration the events that have occurred after the reporting period and before the financial statements were issued. We anticipate a lengthy time period to achieve resolution of this case.

Monte del Lago

On February 13, 2015, a group of tenants at our Monte del Lago Property in Castroville, California filed a complaint in the California Superior Court for Monterey County, Case No. M131016, alleging that we have failed to properly maintain the Property and have improperly reduced the services provided to the tenants, among other allegations. We believe the allegations are without merit and intend to vigorously defend ourselves in the lawsuit. On May 13, 2015, we filed a motion to compel arbitration with respect to certain plaintiffs and to stay the litigation pending the conclusion of the arbitration proceedings. Hearings on the motion were held on July 17, 2015 and September 18, 2015. On October 7, 2015, the court denied our motion.

Santiago Estates

On September 4, 2015, a group of tenants at our Santiago Estates Property in Sylmar, California filed a complaint in the California Superior Court for Los Angeles County, Case No. BC593831, alleging that we have failed to properly maintain the Property and have improperly reduced the services provided to the tenants, among other allegations. We believe the allegations are without merit and intend to vigorously defend ourselves in the lawsuit.

Monterey County District Attorney’s Civil Investigation Relating to Asbestos

In November 2014, we received a civil investigative subpoena from the office of the District Attorney for Monterey County, California (“MCDA”), seeking information relating to, among other items, statewide compliance with asbestos and hazardous waste regulations dating back to 2005 primarily in connection with demolition and renovation projects performed by third-party contractors at our California Properties. We responded by providing the information required by the subpoena.

On October 20, 2015, we attended a meeting with representatives of the MCDA and certain other District Attorney’s offices at which the MCDA reviewed the preliminary results of their investigation including, among other things, (i) alleged violations of asbestos-related regulations associated with approximately 200 historical demolition and renovation projects in California; (ii) potential exposure to civil penalties and cost recovery; and (iii) next steps with respect to a negotiated resolution of the alleged violations. No legal proceedings have been instituted to date. We are assessing the allegations and the underlying facts and at this time we are unable to predict the outcome of the investigation or reasonably estimate any possible loss.

Other

In addition to legal matters discussed above, we are involved in various other legal and regulatory proceedings (“Other Proceedings”) arising in the ordinary course of business. The Other Proceedings include, but are not limited to, notices, consent decrees, information requests, and additional permit requirements and other similar enforcement actions by governmental agencies relating to our water and wastewater treatment plants and other waste treatment facilities. Additionally, in the ordinary course of business, our operations are subject to audit by various taxing authorities. Management believes these Other Proceedings taken together do not represent a material liability. In addition, to the extent any such proceedings or audits relate to newly acquired Properties, we consider any potential indemnification obligations of sellers in our favor.

Note 13 – Reportable Segments

Operating segments are defined as components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker. The chief operating decision maker evaluates and assesses performance on a monthly basis. Segment operating performance is measured on Net Operating Income ("NOI"). NOI is defined as total operating revenues less total operating expenses. Segments are assessed before interest income, depreciation and amortization of in-place leases.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 13 - Segment Reporting (continued)

We have two reportable segments which are: (i) Property Operations and (ii) Home Sales and Rentals Operations. The Property Operations segment owns and operates land lease Properties and the Home Sales and Rentals Operations segment purchases, sells and leases homes at the Properties.
All revenues are from external customers and there is no customer who contributed 10% or more of our total revenues during the nine months ended September 30, 2015 or 2014.
The following tables summarize our segment financial information for the quarters and nine months ended September 30, 2015 and 2014 (amounts in thousands):
Quarter Ended September 30, 2015

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$194,983	$11,581	$206,564
Operations expenses	(96,152)	(10,603)	(106,755)
Income from segment operations	98,831	978	99,809
Interest income	692	1,037	1,729
Depreciation on real estate assets and rental homes	(25,703)	(2,707)	(28,410)
Amortization of in-place leases	(616)	—	(616)
Income (loss) from operations	$73,204	$(692)	72,512
Reconciliation to Consolidated net income:			
Corporate interest income			29
Income from other investments, net			1,822
General and administrative			(7,225)
Property rights initiatives and other			(687)
Interest and related amortization			(26,227)
Equity in income of unconsolidated joint ventures			1,882
Consolidated net income			$42,106
Total assets	$3,193,473	$249,917	$3,443,390

Quarter Ended September 30, 2014

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$184,270	$12,737	$197,007
Operations expenses	(91,939)	(10,498)	(102,437)
Income from segment operations	92,331	2,239	94,570
Interest income	696	1,185	1,881
Depreciation on real estate assets and rental homes	(25,010)	(2,821)	(27,831)
Amortization of in-place leases	(1,075)	—	(1,075)
Income from operations	$66,942	$603	67,545
Reconciliation to Consolidated net income:			
Corporate interest income			21
Income from other investments, net			1,869
General and administrative			(7,623)
Property rights initiatives and other			(751)
Early Debt Retirement			(5,087)
Interest and related amortization			(27,864)

Equity in income of unconsolidated joint ventures			1,237
Gain on sale of property			929
Consolidated net income			$30,276
Total assets	$3,170,718	$280,430	$3,451,148

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Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 13 - Segment Reporting (continued)

Nine Months Ended September 30, 2015

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$573,797	$35,808	$609,605
Operations expenses	(274,109)	(31,303)	(305,412)
Income from segment operations	299,688	4,505	304,193
Interest income	2,114	3,126	5,240
Depreciation on real estate assets and rental homes	(76,668)	(8,193)	(84,861)
Amortization of in-place leases	(1,950)	—	(1,950)
Income (loss) from operations	$223,184	$(562)	222,622
Reconciliation to Consolidated net income:			
Corporate interest income			74
Income from other investments, net			5,119
General and administrative			(22,172)
Property rights initiatives and other			(1,934)
Early debt retirement			(16,922)
Interest and related amortization			(79,648)
Equity in income of unconsolidated joint ventures			3,606
Consolidated net income			$110,745
Total assets	$3,193,473	$249,917	$3,443,390
Capital improvements	$37,211	$30,627	$67,838

Nine Months Ended September 30, 2014

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$541,415	$32,558	$573,973
Operations expenses	(261,744)	(26,765)	(288,509)
Income from segment operations	279,671	5,793	285,464
Interest income	2,266	3,339	5,605
Depreciation on real estate assets and rental homes	(74,815)	(8,419)	(83,234)
Amortization of in-place leases	(3,791)	—	(3,791)
Income from operations	$203,331	$713	204,044
Reconciliation to Consolidated net income:			
Corporate interest income			872
Income from other investments, net			6,098
General and administrative			(20,178)
Property rights initiatives and other			(2,063)
Early Debt Retirement			(5,087)
Interest and related amortization			(84,177)
Equity in income of unconsolidated joint ventures			3,768
Gain on sale of property			929
Consolidated net income			$104,206

Total assets	$3,170,718	$280,430	$3,451,148
Capital improvements	$22,111	$19,534	$41,645

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 13 - Segment Reporting (continued)

The following table summarizes our financial information for the Property Operations segment for the quarters and nine months ended September 30, 2015 and 2014 (amounts in thousands):

	Quarters Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues:				
Community base rental income	$110,908	$106,967	$330,251	$319,514
Resort base rental income	49,765	44,351	142,837	126,188
Right-to-use annual payments	11,334	11,404	33,260	33,859
Right-to-use contracts current period, gross	3,889	4,168	10,264	10,512
Right-to-use contract upfront payments, deferred, net	(1,701)	(1,989)	(3,929)	(4,303)
Utility and other income	20,027	18,581	58,010	53,070
Ancillary services revenues, net	761	788	3,104	2,575
Total property operations revenues	194,983	184,270	573,797	541,415
Expenses:				
Property operating and maintenance	69,227	66,105	194,522	186,018
Real estate taxes	12,923	12,263	38,169	36,905
Sales and marketing, gross	3,105	3,242	9,139	8,674
Right-to-use contract commissions, deferred, net	(464)	(757)	(1,471)	(2,022)
Property management	11,361	11,086	33,750	32,169
Total property operations expenses	96,152	91,939	274,109	261,744
Income from property operations segment	$98,831	$92,331	$299,688	$279,671

The following table summarizes our financial information for the Home Sales and Rentals Operations segment for the quarters and nine months ended September 30, 2015 and 2014 (amounts in thousands):

	Quarters Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues:				
Gross revenue from home sales	$7,878	$8,717	$24,341	$20,455
Brokered resale revenues, net	290	336	941	916
Rental home income [(a)]	3,413	3,684	10,526	11,187
Total revenues	11,581	12,737	35,808	32,558
Expenses:				
Cost of home sales	7,868	8,156	23,685	19,679
Home selling expenses	861	513	2,386	1,710
Rental home operating and maintenance	1,874	1,829	5,232	5,376
Total expenses	10,603	10,498	31,303	26,765
Income from home sales and rentals operations segment	$978	$2,239	$4,505	$5,793

(a) Segment information does not include Site rental income included in Community base rental income.

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

Overview and Outlook

We are a self-administered, self-managed, real estate investment trust ("REIT") with headquarters in Chicago, Illinois. We are a fully integrated owner and operator of lifestyle-oriented properties ("Properties"). We lease individual developed areas ("Sites") with access to utilities for placement of factory built homes, cottages, cabins or recreational vehicles ("RVs"). Customers may lease individual Sites or enter right-to-use contracts providing the customer access to specific Properties for limited stays. As of September 30, 2015, we owned or had an ownership interest in a portfolio of 387 Properties located throughout the United States and Canada containing 143,895 Sites. These Properties are located in 32 states and British Columbia (with the number of Properties in each state or province shown parenthetically) as follows: Florida (122), California (49), Arizona (42), Texas (17), Pennsylvania (15), Washington (14), Colorado (10), North Carolina (10), Wisconsin (10), Oregon (9), Delaware (7), Indiana (7), Nevada (7), New York (7), Virginia (7), New Jersey (6), Illinois (5), Maine (5), Massachusetts (5), Idaho (4), Michigan (4), Minnesota (4), New Hampshire (3), South Carolina (3), Utah (3), Maryland (2), North Dakota (2), Ohio (2), Tennessee (2), Alabama (1), Connecticut (1), Kentucky (1), and British Columbia (1).

This report includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used, words such as "anticipate," "expect," "believe," "project," "intend," "may be" and "will be" a similar words or phrases, or the negative thereof, unless the context requires otherwise, are intended to identify forward-looking statements and may include without limitation, information regarding our expectations, goals or intentions regarding the future, and the expected effect of recent acquisitions on us. These forward-looking statements are subject to numerous assumptions, risks and uncertainties, including, but not limited to:

- our ability to control costs, real estate market conditions, the actual rate of decline in customers, the actual use of Sites by customers and our success in acquiring new customers at our Properties (including those that we may acquire);
- our ability to maintain historical or increase future rental rates and occupancy with respect to Properties currently owned or that we may acquire;
- our ability to retain and attract customers renewing, upgrading and entering right-to-use contracts;
- our assumptions about rental and home sales markets;
- our ability to manage counter-party risk;
- in the age-qualified Properties, home sales results could be impacted by the ability of potential home buyers to sell their existing residences as well as by financial, credit and capital markets volatility;
- results from home sales and occupancy will continue to be impacted by local economic conditions, lack of affordable manufactured home financing and competition from alternative housing options including site-built single-family housing;
- impact of government intervention to stabilize site-built single family housing and not manufactured housing;
- effective integration of recent acquisitions and our estimates regarding the future performance of recent acquisitions;
- the completion of future transactions in their entirety, if any, and timing and effective integration with respect thereto;
- unanticipated costs or unforeseen liabilities associated with recent acquisitions;
- ability to obtain financing or refinance existing debt on favorable terms or at all;
- the effect of interest rates;
- the dilutive effects of issuing additional securities;
- the effect of accounting for the entry of contracts with customers representing a right-to-use the Properties under the Codification Topic "Revenue Recognition;"
- the outcome of pending or future lawsuits filed against us, including those disclosed in our filings with the Securities and Exchange Commission, by tenant groups seeking to limit rent increases and/or seeking large damage awards for our alleged failure to properly maintain certain Properties or other tenant related matters, such as the case currently pending in the California Court of Appeal, Sixth Appellate District, Case No. H041913, involving our California Hawaiian manufactured home property, including any further proceedings on appeal or in the trial court; and
- other risks indicated from time to time in our filings with the Securities and Exchange Commission.

These forward-looking statements are based on management's present expectations and beliefs about future events. As with any projection or forecast, these statements are inherently susceptible to uncertainty and changes in

circumstances. We are under no obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Management's Discussion (continued)

The following chart lists the Properties acquired or invested in since January 1, 2014 through September 30, 2015.

Property	Transaction Date	Sites
Total Sites as of January 1, 2014		139,126
Property or Portfolio:		
Acquisitions:		
Blackhawk	January 7, 2014	490
Lakeland	January 24, 2014	682
Pine Acres	September 26, 2014	421
Echo Farms	September 29, 2014	237
Mays Landing	September 30, 2014	168
Space Coast	October 1, 2014	270
Mesa Spirit	December 30, 2014	1,600
Bogue Pines	February 9, 2015	150
Whispering Pines	February 9, 2015	278
Miami Everglades	June 26, 2015	303
Expansion Site Development and other:		
Net sites added (reconfigured) in 2014		119
Net sites added (reconfigured) in 2015		51
Total Sites as of September 30, 2015		143,895

Our gross investment in real estate has increased approximately $71.0 million to $4,459 million as of September 30, 2015 from $4,388 million as of December 31, 2014 primarily due to increased capital expenditures as well as the acquisition of three Properties: Bogue Pines, Whispering Pines and Miami Everglades.

We actively seek to acquire and are currently engaged in various stages of negotiations relating to the possible acquisition of additional properties, which may include contracts outstanding to acquire such properties that are subject to the satisfactory completion of our due diligence review.

Occupancy in our Properties, as well as our ability to increase rental rates, directly affects revenues. Our revenue streams are predominantly derived from customers renting our Sites on a long-term basis. Some revenue streams are subject to seasonal fluctuations and, accordingly, quarterly interim results may not be indicative of full fiscal year results.

The following table shows the breakdown of our Sites by type. Our community Sites and annual resort Sites are leased on an annual basis. Seasonal Sites are leased to customers generally for three to six months. Transient Sites are leased to customers on a short-term basis. The revenue from seasonal and transient Sites is generally higher during the first and third quarters. We expect to service over 100,000 customers at our transient Sites in 2015 and we consider this revenue stream to be our most volatile as it is subject to weather conditions and other factors affecting the marginal RV customer’s vacation and travel preferences. Sites designated as right-to-use Sites are primarily utilized to service the approximately 102,000 customers who have entered right-to-use contracts. We also have interests in joint venture Properties for which revenue is classified as Equity in income from unconsolidated joint ventures in the Consolidated Statements of Income and Comprehensive Income.

	Total Sites as of September 30, 2015
Community Sites	70,100
Resort Sites:	
Annual	25,800
Seasonal	10,400
Transient	10,400
Right-to-use [1]	24,100
Joint Ventures [2]	3,100
	143,900

(1) Includes approximately 5,400 Sites rented on an annual basis.

(2) Joint ventures have approximately 2,200 annual Sites, approximately 400 seasonal Sites and approximately 500 transient Sites.

Our Core Portfolio ("Core Portfolio") consists of our Properties owned and operated for the same period in 2015 and 2014. For the quarter ended September 30, 2015, property operating revenues in our Core Portfolio, excluding deferrals, were up 4.1% and property operating expenses in our Core Portfolio, excluding deferrals and property management, were up 2.8%, resulting in an increase in Core net operating income before deferrals and property management of 5.0%.

A significant portion of our rental agreements on community Sites have rent increases that are directly or indirectly connected to published CPI statistics that are issued from June through September of the year prior to the increase effective date.

Twenty-seven properties, including 19 of our 49 California Properties, our seven Delaware Properties and one of our five Massachusetts Properties are affected by state and local rent control regulations. The impact of the rent control regulations is to limit our ability to implement rent increases based on prevailing market conditions. The regulations generally permit us to increase rates by a percentage of the increase in the CPI. The limit on rent increases may range from 60% to 100% of CPI with certain maximum limits depending on the jurisdiction.

In the years following the disruption in the site-built housing market, our home sales business was negatively affected by our customers' inability to sell their existing site-built homes and relocate to their retirement destination. As a result, we focused on home rental rather than sales as our primary source of occupancy upon turnover. As we managed and expanded our portfolio of rental homes, we placed homes in communities where we believed we could successfully sell homes as the market improved. We continue to allocate capital to home purchases based on our assessment of market conditions and emphasize home sales in that assessment. We continue to see population growth in our key markets, increased access to distribution channels for our products, and a renewed willingness by our customers to commit to us for a longer period of time. We have also seen a decrease in homes coming back to us, which generally means that our residents have the opportunity to resell their homes.

We continue to focus on the quality of occupancy growth by increasing the number of homeowners in our Core portfolio. As of September 30, 2015, we increased occupancy in our Core Portfolio by 380 sites, with an increase in homeowner occupancy of 791 sites compared with occupancy at September 30, 2014.

In the ordinary course of business, we acquire used homes from customers through purchase, foreclosure of a lien, or abandonment. In a vibrant home sales market, used homes may be sold in place or removed from sites and replaced with new homes. This can result in fewer homes acquired through abandonment. Used homes may also be rented either in the condition received or after warranted rehabilitation. While we continue to focus on selling homes, we continue to evaluate rental units, and based on market conditions, we expect to invest in additional new homes for customer rentals.

Since 2013, we have experienced an increase in the sales volume of new and used homes in our communities. We attribute this increase to various factors including management's focus on increasing the number of homeowners within our communities, changes to incentive structures for our on-site personnel to emphasize home sales rather than rentals and willingness of an increasing number of customers to commit their capital to purchase a home in our communities. New home sales in the manufactured home communities in our Core Portfolio during the nine months ended September 30, 2015 increased by 67 new homes over the same period in the prior year. The recent new home sales have been primarily in our California, Colorado and Florida communities (see the Home Sales Operations tables in the sections below for additional detail regarding our home sales activity.)

During 2013 we formed a joint venture, ECHO Financing, LLC (the "ECHO JV"), with a home manufacturer to buy and sell homes, as well as to offer another financing option to purchasers of homes at our Properties. The ECHO JV may also rent homes to customers in our communities. In the manufactured housing industry, chattel financing options available today include community owner funded programs or third party lender programs that provide subsidized financing to customers and require the community owner to provide a guarantee for customer defaults. Third party lender programs have stringent underwriting criteria, sizable down payment requirements, short loan amortization and high interest rates.

As of September 30, 2015, we had 4,952 occupied rental homes in our manufactured home communities. For the quarters ended September 30, 2015 and 2014, home rental program net operating income was approximately $8.1 million and $8.9 million, respectively, net of rental asset depreciation expense of approximately $2.7 million and $2.8 million, respectively. Approximately $9.2 million and $9.8 million of home rental operations revenue was included in community base rental income for the quarters ended September 30, 2015 and 2014, respectively. The net operating income and rental asset depreciation expense does not include the revenue and expense associated with our ECHO JV (see the Rental Operations tables in the sections below for additional detail regarding our rental activity.)

For the nine months ended September 30, 2015 and 2014, home rental program net operating income was approximately $24.9 million and $27.3 million, respectively, net of rental asset depreciation expense of approximately $8.1 million and $8.3 million, respectively. Approximately $27.7 million and $29.8 million of rental operations revenue was included in community base rental income for the nine months ended September 30, 2015 and 2014,

respectively. We believe at this time we compete effectively with other types of rentals (i.e., apartments). We continue to evaluate home rental operations and expect to continue to invest in additional units.

In our RV resorts, we are focused on engaging with our existing customers and providing them the lifestyle they seek as well as attracting additional customers interested in our Properties. We continue to experience growth in our annual revenues as a result of our ability to increase rental rates and occupancy. Our third quarter Core Portfolio annual revenues were 5.9% higher than the third quarter of last year. We believe our customer base is loyal and engaged in the lifestyle we offer at our Properties. We have annual customers who have stayed with us for more than ten years and our member base includes members who have camped with us for more than twenty years. Our social media presence has increased within this member base.

Management's Discussion (continued)

For our membership based RV resorts, we sell low-cost membership products that focus on the installed base of approximately nine million RV owners. Such products include right-to-use contracts that entitle the customer to use certain Properties. We are offering a Thousand Trails Camping Pass ("TTC") (formerly Zone Park Pass), which can be purchased for one to five geographic areas of the United States and requires an annual payment of $545. A single zone TTC requires no additional upfront payment while additional zones may be purchased for modest additional upfront payments. Since the introduction of low-cost membership products in 2010, we have entered into approximately 76,600 TTCs. For the nine months ended September 30, 2015, we entered into approximately 20,700 TTCs, or a 39.9% increase from approximately 14,800 TTCs for the nine months ended September 30, 2014. Of the 20,700 TTCs activated during the nine months ended September 30, 2015, approximately 10,200 were sold to dues paying members and the remainder were activated through select RV dealers.

In 2012, we initiated a program with RV dealers to feature our TTC as part of the dealers' sales and marketing efforts. We provide the dealer with a TTC membership to give to their customers in connection with the purchase of an RV. No cash is received from the member during the first year of membership for memberships activated through the RV dealer program. Since inception, we have activated 26,296 TTCs through the RV dealer program. Our renewal rate for these RV dealer memberships is approximately 18.6%.

Existing customers are eligible to upgrade their right-to-use contract from time-to-time. An upgrade is distinguishable from a new right-to-use contract that a customer would enter by, depending on the type of upgrade, offering (1) increased length of consecutive stay by 50% (i.e., up to 21 days); (2) ability to make earlier advance reservations; (3) discounts on rental units; (4) access to additional Properties, which may include use of Sites at non-membership RV resorts and (5) membership in discount travel programs. Each upgrade contract requires a nonrefundable upfront payment. We finance the nonrefundable upfront payment for certain customers.

Critical Accounting Policies and Estimates

Refer to the 2014 Form 10-K for a discussion of our critical accounting policies, which includes impairment of real estate assets and investments, revenue recognition and business combinations. There have been no changes to these policies during the nine months ended September 30, 2015.

Supplemental Measures

Management's discussion and analysis of financial condition and results of operations include certain non-GAAP financial measures that in management's view of the business we believe are meaningful as they allow the investor the ability to understand key operating details of our business both with and without regard to certain accounting conventions or items that may not always be indicative of recurring annual cash flow of the portfolio. These non-GAAP financial measures as determined and presented by us may not be comparable to similarly titled measures reported by other companies and include Income from property operations, Funds from Operations ("FFO") and Normalized Funds from Operations ("Normalized FFO").

Income from property operations represents rental income, utility income and right-to-use income less property operating and maintenance, real estate taxes, sales and marketing, and property management expenses. We believe that Income from property operations is helpful to investors and analysts as a direct measure of the actual operating results of our manufactured home and RV communities. A discussion of FFO, Normalized FFO and a reconciliation to net income are included in the presentation of FFO following our "Results of Operations."

The following table reconciles Income before equity in income of unconsolidated joint ventures to Income from property operations for the quarters and nine months ended September 30, 2015 and 2014 (amounts in thousands):

	Total Portfolio			
	Quarters Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Income from property operations	$99,609	$93,398	$301,878	$282,907
Income from home sales operations and other	200	1,172	2,315	2,557
Total other income and expenses, net	(59,585)	(66,460)	(197,054)	(185,955)

Income before equity in income of unconsolidated joint ventures	$40,224	$28,110	$107,139	$99,509

Management's Discussion (continued)

Comparison of the Quarter Ended September 30, 2015 to the Quarter Ended September 30, 2014
Income from Property Operations
The following table summarizes certain financial and statistical data for the Core Portfolio and the total portfolio for the quarters ended September 30, 2015 and 2014 (amounts in thousands). The Core Portfolio may change from time-to-time depending on acquisitions, dispositions and significant transactions or unique situations. The Core Portfolio in this Form 10-Q includes all Properties acquired prior to December 31, 2013 and which we have owned and operated continuously since January 1, 2014. Core Portfolio growth percentages exclude the impact of GAAP deferrals of upfront payments from right-to-use contracts and related commissions.

	Core Portfolio				Total Portfolio			
	2015	2014	Variance	% Change	2015	2014	Variance	% Change
Community base rental income	$110,792	$106,967	$3,825	3.6 %	$110,908	$106,967	$3,941	3.7 %
Rental home income	3,411	3,684	(273)	(7.4)%	3,413	3,684	(271)	(7.4)%
Resort base rental income	46,540	43,301	3,239	7.5 %	49,765	44,351	5,414	12.2 %
Right-to-use annual payments	11,334	11,404	(70)	(0.6)%	11,334	11,404	(70)	(0.6)%
Right-to-use contracts current period, gross	3,889	4,168	(279)	(6.7)%	3,889	4,168	(279)	(6.7)%
Utility and other income	19,726	18,538	1,188	6.4 %	20,027	18,581	1,446	7.8 %
Property operating revenues, excluding deferrals	195,692	188,062	7,630	4.1 %	199,336	189,155	10,181	5.4 %
Property operating and maintenance	67,314	65,363	1,951	3.0 %	69,227	66,105	3,122	4.7 %
Rental home operating and maintenance	1,874	1,828	46	2.5 %	1,874	1,829	45	2.5 %
Real estate taxes	12,674	12,200	474	3.9 %	12,923	12,263	660	5.4 %
Sales and marketing, gross	3,104	3,242	(138)	(4.3)%	3,105	3,242	(137)	(4.2)%
Property operating expenses, excluding deferrals and Property management	84,966	82,633	2,333	2.8 %	87,129	83,439	3,690	4.4 %
Income from property operations, excluding deferrals and Property management (1)	110,726	105,429	5,297	5.0 %	112,207	105,716	6,491	6.1 %
Property management	11,361	11,086	275	2.5 %	11,361	11,086	275	2.5 %
Income from property operations, excluding deferrals (1)	99,365	94,343	5,022	5.3 %	100,846	94,630	6,216	6.6 %
Right-to-use contracts, deferred and sales and marketing, deferred, net	1,237	1,232	5	0.4 %	1,237	1,232	5	0.4 %

Income from property operations	$98,128	$93,111	$5,017	5.4 %	$99,609	$93,398	$6,211	6.7 %

(1) Non-GAAP measure.

The $3.8 million, or 3.6%, increase in Core Portfolio community base rental income primarily reflects a 3.0% growth from rate increases and a 0.6% growth from occupancy gains. The average monthly base rent per site increased to approximately $570 in 2015 from approximately $554 in 2014. The average occupancy increased to 92.8% in 2015 from 92.3% in 2014. The increase in Core property operating and maintenance expenses was primarily due to increased repair and maintenance expenses driven by certain storm events, water hauling costs, higher cabin rental maintenance as well as general maintenance supplies.

The decrease in rental home income and increase in rental home operating and maintenance are discussed in further detail in the Rental Operations table below.

Resort base rental income is comprised of the following (amounts in thousands):

	Core Portfolio				Total Portfolio			
	2015	2014	Variance	% Change	2015	2014	Variance	% Change
Annual	$26,810	$25,307	$1,503	5.9 %	$29,075	$26,055	$3,020	11.6 %
Seasonal	3,728	3,315	413	12.5 %	3,933	3,339	594	17.8 %
Transient	16,002	14,679	1,323	9.0 %	16,757	14,957	1,800	12.0 %
Resort base rental income	$46,540	$43,301	$3,239	7.5 %	$49,765	$44,351	$5,414	12.2 %

Right-to-use annual payments are flat to the third quarter of 2014. Lower commissions driven by fewer TTCs sold during the quarter by the in-park and call center sales' teams was offset by growth in the low-cost RV dealer and online channels. Right-to-use contracts current period, gross, net of sales and marketing, gross, decreased as a result of lower upgrade sales by our third

Management's Discussion (continued)

party sales agent. During the third quarter of 2015 there were 798 upgrade sales with an average price per sale of $4,861. This compares to 920 upgrade sales with an average price per sale of $4,531 for the third quarter of 2014.

The following table summarizes the growth rate percentages excluding Property management expense, Right-to-use contracts current period, gross and Sales and marketing, gross (amounts in thousands):

	Core Portfolio				Total Portfolio			
	2015	2014	Variance	% Change	2015	2014	Variance	% Change
Property operating revenues, excluding Right-to-use contracts current period, gross	$191,803	$183,894	$7,909	4.3 %	$195,447	$184,987	$10,460	5.7 %
Property operating expenses, excluding Sales and marketing, gross	81,862	79,391	2,471	3.1 %	84,024	80,197	3,827	4.8 %
Income from property operations, excluding Right-to-use contracts current period, gross and Sales and marketing, gross	$109,941	$104,503	$5,438	5.2 %	$111,423	$104,790	$6,633	6.3 %

The increase in total portfolio income from property operations is primarily due to increases in Core community base rental income, Core resort base rental income, the contribution from property operations related to the 2014 and 2015 acquisitions as well as increased Utility and other income. The increase is partially offset by an overall increase in expenses, with the most significant increases relating to utility, repair and maintenance and payroll expenses.

Home Sales Operations

The following table summarizes certain financial and statistical data for the Home Sales Operations for the quarters ended September 30, 2015 and 2014 (amounts in thousands, except home sales volumes).

	2015	2014	Variance	% Change
Gross revenues from new home sales [1]	$3,901	$4,051	$(150)	(3.7)%
Cost of new home sales [1]	3,738	3,334	404	12.1 %
Gross profit from new home sales	163	717	(554)	(77.3)%
Gross revenues from used home sales	3,977	4,666	(689)	(14.8)%
Cost of used home sales	4,130	4,822	(692)	(14.4)%
Gross loss from used home sales	(153)	(156)	3	1.9 %
Brokered resale revenues and ancillary services revenues, net	1,051	1,124	(73)	(6.5)%
Home selling expenses	861	513	348	67.8 %
Income from home sales operations and other	$200	$1,172	$(972)	(82.9)%
Home sales volumes				
Total new home sales[2]	123	106	17	16.0 %
New Home Sales Volume - ECHO JV	52	52	—	— %
Used home sales	357	424	(67)	(15.8)%
Brokered home resales	202	251	(49)	(19.5)%

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(1) New home sales gross revenues and costs of new home sales does not include the revenues and costs associated with our ECHO JV.
(2) Total new home sales volume includes home sales from our ECHO JV for the quarters ended September 30, 2015 and 2014, respectively.

The decrease in income from home sales operations and other is primarily due to lower gross profits from new home sales due to a decrease in sales in the California region where we have larger homes that carry a higher average sales price. Also increased home selling expenses and lower income from ancillary services, which include retail sales at various Properties, contributed to the decrease.

Management's Discussion (continued)

Rental Operations

The following table summarizes certain financial and statistical data for manufactured home Rental Operations for the quarters ended September 30, 2015 and 2014 (amounts in thousands, except rental unit volumes).

	2015	2014	Variance	% Change
Manufactured homes:				
New Home	$5,639	$5,632	$7	0.1 %
Used Home	6,950	7,874	(924)	(11.7)%
Rental operations revenue [1]	12,589	13,506	(917)	(6.8)%
Rental home operating and maintenance	1,874	1,829	45	2.5 %
Income from rental operations	10,715	11,677	(962)	(8.2)%
Depreciation on rental homes [2]	2,663	2,773	(110)	(4.0)%
Income from rental operations, net of depreciation	$8,052	$8,904	$(852)	(9.6)%
Gross investment in new manufactured home rental units [3]	$110,227	$110,700	$(473)	(0.4)%
Gross investment in used manufactured home rental units	$58,847	$64,182	$(5,335)	(8.3)%
Net investment in new manufactured home rental units	$89,242	$94,180	$(4,938)	(5.2)%
Net investment in used manufactured home rental units	$38,951	$50,488	$(11,537)	(22.9)%
Number of occupied rentals – new, end of period [4]	2,076	2,087	(11)	(0.5)%
Number of occupied rentals – used, end of period	2,876	3,276	(400)	(12.2)%

(1) Approximately $9.2 million and $9.8 million for the quarters ended September 30, 2015 and 2014, respectively, of Site rental income are included in Community base rental income in the Income from Property Operations table. The remainder of home rental income is included in Rental home income in the Income from Property Operations table.

(2) Included in depreciation on real estate and other costs in the Consolidated Statements of Income and Comprehensive Income.

(3) New home cost basis does not include the costs associated with our ECHO JV. Our investment in the ECHO JV was $10.3 million and $6.2 million at September 30, 2015 and 2014, respectively.

(4) Includes 72 and 15 homes rented through our ECHO JV during the quarter ended September 30, 2015 and 2014, respectively.

The decrease in income from rental operations is primarily due to a decrease in the number of occupied rental units, primarily used rental units.

Other Income and Expenses

The following table summarizes other income and expenses for the quarters ended September 30, 2015 and 2014 (amounts in thousands, expenses shown as negative).

	2015	2014	Variance	% Change
Depreciation on real estate and rental homes	$(28,410)	$(27,831)	$(579)	(2.1)%
Amortization of in-place leases	(616)	(1,075)	459	42.7 %
Interest income	1,758	1,902	(144)	(7.6)%
Income from other investments, net	1,822	1,869	(47)	(2.5)%
General and administrative (excluding transaction costs)	(7,104)	(7,003)	(101)	(1.4)%

Transaction costs	(121)	(620)	499	80.5 %
Property rights initiatives and other	(687)	(751)	64	8.5 %
Early debt retirement	—	(5,087)	5,087	100.0 %
Interest and related amortization	(26,227)	(27,864)	1,637	5.9 %
Total other income and expenses, net	$(59,585)	$(66,460)	$6,875	10.3 %

Depreciation on real estate and rental homes increased primarily due to the acquisitions that occurred during the third quarter of 2014 (see Note 4 in the Notes to the Consolidated Financial Statements for additional detail regarding our recent acquisition activity).

Early debt retirement decreased due to the $5.1 million fee associated with the early retirement of the loan secured by our Colony Cove community incurred in 2014.

A decrease in secured debt and lower weighted average interest rates contributed to the decrease in interest and related amortization.

Management's Discussion (continued)

Comparison of the Nine Months Ended September 30, 2015 to the Nine Months Ended September 30, 2014

Income from Property Operations

The following table summarizes certain financial and statistical data for the Core Portfolio and the total portfolio for the nine months ended September 30, 2015 and 2014 (amounts in thousands).

	Core Portfolio				Total Portfolio			
	2015	2014	Variance	% Change	2015	2014	Variance	% Change
Community base rental income	$329,958	$319,514	$10,444	3.3 %	$330,251	$319,514	$10,737	3.4 %
Rental home income	10,524	11,187	(663)	(5.9)%	10,526	11,187	(661)	(5.9)%
Resort base rental income	133,589	123,679	9,910	8.0 %	142,837	126,188	16,649	13.2 %
Right-to-use annual payments	33,260	33,859	(599)	(1.8)%	33,260	33,859	(599)	(1.8)%
Right-to-use contracts current period, gross	10,264	10,512	(248)	(2.4)%	10,264	10,512	(248)	(2.4)%
Utility and other income	57,180	52,904	4,276	8.1 %	58,010	53,070	4,940	9.3 %
Property operating revenues, excluding deferrals	574,775	551,655	23,120	4.2 %	585,148	554,330	30,818	5.6 %
Property operating and maintenance	189,811	184,779	5,032	2.7 %	194,522	186,018	8,504	4.6 %
Rental home operating and maintenance	5,231	5,375	(144)	(2.7)%	5,232	5,376	(144)	(2.7)%
Real estate taxes	37,645	36,797	848	2.3 %	38,169	36,905	1,264	3.4 %
Sales and marketing, gross	9,134	8,674	460	5.3 %	9,139	8,674	465	5.4 %
Property operating expenses, excluding deferrals and Property management	241,821	235,625	6,196	2.6 %	247,062	236,973	10,089	4.3 %
Income from property operations, excluding deferrals and Property management [(1)]	332,954	316,030	16,924	5.4 %	338,086	317,357	20,729	6.5 %
Property management	33,749	32,169	1,580	4.9 %	33,750	32,169	1,581	4.9 %
Income from property operations, excluding deferrals [(1)]	299,205	283,861	15,344	5.4 %	304,336	285,188	19,148	6.7 %
Right-to-use contracts, deferred and sales and marketing, deferred, net	2,458	2,281	177	7.8 %	2,458	2,281	177	7.8 %
Income from property operations	$296,747	$281,580	$15,167	5.4 %	$301,878	$282,907	$18,971	6.7 %

(1) Non-GAAP measure.

The $10.4 million, or 3.3%, increase in Core Portfolio community base rental income primarily reflects a 2.8% growth from rate increases and a 0.5% growth from occupancy gains. The average monthly base rent per site increased to approximately $567 in 2015 from approximately $552 in 2014. The average occupancy increased to 92.5% in 2015 from 92.2% in 2014. The increase in Core property operating and maintenance expenses was primarily due to increased repair and maintenance expenses driven by certain storm events, higher cabin rental maintenance, and general maintenance supplies.

The decrease in rental home income and rental home operating and maintenance are discussed in further detail in the Rental Operations table below.

Resort base rental income is comprised of the following (amounts in thousands):

	Core Portfolio				Total Portfolio			
	2015	2014	Variance	% Change	2015	2014	Variance	% Change
Annual	$78,944	$74,637	$4,307	5.8 %	$85,550	$76,747	$8,803	11.5 %
Seasonal	21,374	19,283	2,091	10.8 %	22,584	19,316	3,268	16.9 %
Transient	33,271	29,759	3,512	11.8 %	34,703	30,125	4,578	15.2 %
Resort base rental income	$133,589	$123,679	$9,910	8.0 %	$142,837	$126,188	$16,649	13.2 %

The 1.8% decrease in right-to-use annual payments is primarily due to a decrease in profit recovery and late fees. Right-to-use contracts current period, gross, net of sales and marketing, gross, decreased as a result of lower upgrade sales by our third party sales agent. During the nine months ended September 30, 2015 there were 2,152 upgrade sales with an average price per sale of $4,754. This compares to 2,239 upgrade sales with an average price per sale of $4,696 for the nine months ended September 30, 2014.

Management's Discussion (continued)

The following table summarizes the growth rate percentages excluding Property management expense, Right-to-use contracts current period, gross and Sales and marketing, gross (amounts in thousands):

	Core Portfolio				Total Portfolio			
	2015	2014	Variance	% Change	2015	2014	Variance	% Change
Property operating revenues, excluding Right-to-use contracts current period, gross	$564,511	$541,143	$23,368	4.3 %	$574,884	$543,818	$31,066	5.7 %
Property operating expenses, excluding Sales and marketing, gross	232,687	226,951	5,736	2.5 %	237,923	228,299	9,624	4.2 %
Income from property operations, excluding Right-to-use contracts current period, gross and Sales and marketing, gross	$331,824	$314,192	$17,632	5.6 %	$336,961	$315,519	$21,442	6.8 %

The increase in total portfolio income from property operations is primarily due to increases in Core resort base rental income, Core community base rental income, the contribution from property operations related to the 2014 and 2015 acquisitions as well as increased utility and other income. This increase is partially offset by an overall increase in expenses, with the most significant increases relating to repair and maintenance, payroll, and utility expenses.

Home Sales Operations

The following table summarizes certain financial and statistical data for the Home Sales Operations for the nine months ended September 30, 2015 and 2014 (amounts in thousands, except home sales volumes).

	2015	2014	Variance	% Change
Gross revenues from new home sales [1]	$12,186	$9,771	$2,415	24.7 %
Cost of new home sales [1]	11,408	8,370	3,038	36.3 %
Gross profit from new home sales	778	1,401	(623)	(44.5)%
Gross revenues from used home sales	12,155	10,684	1,471	13.8 %
Cost of used home sales	12,277	11,309	968	8.6 %
Gross loss from used home sales	(122)	(625)	503	80.5 %
Brokered resale revenues and ancillary services revenues, net	4,045	3,491	554	15.9 %
Home selling expenses	2,386	1,710	676	39.5 %
Income from home sales operations and other	$2,315	$2,557	$(242)	(9.5)%
Home sales volumes				
Total new home sales[2]	352	237	115	48.5 %
New Home Sales Volume - ECHO JV	140	94	46	48.9 %
Used home sales	1,174	1,144	30	2.6 %
Brokered home resales	668	720	(52)	(7.2)%

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[1] New home sales gross revenues and costs of new home sales does not include the revenues and costs associated with our ECHO JV.

(2) Total new home sales volume includes home sales from our ECHO JV for the nine months ended September 30, 2015 and 2014, respectively.

The decrease in income from home sales operations and other is primarily due to lower gross profits from new home sales due to a decrease in sales in the California region where we have larger homes that carry a higher average sales price. Also increased home selling expenses offset by increased income from ancillary services, which include retail sales at various Properties.

Management's Discussion (continued)

Rental Operations

The following table summarizes certain financial and statistical data for manufactured home Rental Operations for the nine months ended September 30, 2015 and 2014 (amounts in thousands, except rental unit volumes).

	2015	2014	Variance	% Change
Manufactured homes:				
New Home	$16,920	$17,207	$(287)	(1.7)%
Used Home	21,297	23,737	(2,440)	(10.3)%
Rental operations revenue [1]	38,217	40,944	(2,727)	(6.7)%
Rental home operating and maintenance	5,232	5,376	(144)	(2.7)%
Income from rental operations	32,985	35,568	(2,583)	(7.3)%
Depreciation on rental homes [2]	8,050	8,287	(237)	(2.9)%
Income from rental operations, net of depreciation	$24,935	$27,281	$(2,346)	(8.6)%
Gross investment in new manufactured home rental units [3]	$110,227	$110,700	$(473)	(0.4)%
Gross investment in used manufactured home rental units	$58,847	$64,182	$(5,335)	(8.3)%
Net investment in new manufactured home rental units	$89,242	$94,180	$(4,938)	(5.2)%
Net investment in used manufactured home rental units	$38,951	$50,488	$(11,537)	(22.9)%
Number of occupied rentals – new, end of period [4]	2,076	2,087	(11)	(0.5)%
Number of occupied rentals – used, end of period	2,876	3,276	(400)	(12.2)%

(1) Approximately $27.7 million and $29.8 million for the nine months ended September 30, 2015 and 2014, respectively, of Site rental income are included in Community base rental income in the Income from Property Operations table. The remainder of home rental income is included in Rental home income in the Income from Property Operations table.

(2) Included in depreciation on real estate and other costs in the Consolidated Statements of Income and Comprehensive Income.

(3) New home cost basis does not include the costs associated with our ECHO JV. Our investment in the ECHO JV was $10.3 million and $6.2 million at September 30, 2015 and 2014, respectively.

(4) Includes 72 and 15 homes rented through our ECHO JV in 2015 and 2014, respectively.

The decrease in income from rental operations is primarily due to a decrease in the number of occupied rental units, primarily used rental units.

Other Income and Expenses

The following table summarizes other income and expenses for the nine months ended September 30, 2015 and 2014 (amounts in thousands, expenses shown as negative).

	2015	2014	Variance	% Change
Depreciation on real estate and rental homes	$(84,861)	$(83,234)	$(1,627)	(2.0)%
Amortization of in-place leases	(1,950)	(3,791)	1,841	48.6%
Interest income	5,314	6,477	(1,163)	(18.0)%
Income from other investments, net	5,119	6,098	(979)	(16.1)%
General and administrative (excluding transaction costs)	(21,569)	(19,027)	(2,542)	(13.4)%
Transaction costs	(603)	(1,151)	548	47.6%

Property rights initiatives	(1,934)	(2,063)	129	6.3 %
Early debt retirement	(16,922)	(5,087)	(11,835)	(232.7)%
Interest and related amortization	(79,648)	(84,177)	4,529	5.4 %
Total other income and expenses, net	$(197,054)	$(185,955)	$(11,099)	(6.0)%

Depreciation on real estate and rental homes increased primarily due to the acquisitions that occurred during the third and fourth quarters of 2014 (see Note 4 in the Notes to the Consolidated Financial Statements for additional detail regarding our recent acquisition activity).

Amortization of in-place leases decreased primarily due to the expected one-year life of in-place leases. The variance is further driven by the higher rate of amortization relating to the 2014 in-place leases which were fully amortized prior to the beginning of 2015.

Management's Discussion (continued)

Income from other investments, net, decreased approximately $1.0 million due to the collection in 2014 of a previously reserved receivable.
General and administrative expenses increased primarily due to the timing of the 2015 restricted stock awards (see Note 10 in the Notes to the Consolidated Financial Statements for additional detail regarding our stock-based compensation plan).
Early debt retirement expense increased as a result of the defeasance and prepayment activity that occurred during the first quarter of 2015, offset by the $5.1 million fee associated with the early debt retirement of the loan secured by our Colony Cove community incurred in 2014 (see Note 7 in the Notes to the Consolidated Financial Statements for additional detail regarding our first quarter defeasance and refinancing activity).
A decrease in secured debt and lower weighted average interest rates contributed to the decrease in interest and related amortization.

Liquidity and Capital Resources

Liquidity

Our primary demands for liquidity include payment of operating expenses, debt service, including principal and interest, capital improvements on properties, purchasing both new and pre-owned homes, acquisitions of new Properties, and distributions. We expect similar demands for liquidity will continue for the short-term and long-term. Our primary sources of cash include operating cash flows, proceeds from financings, borrowings under our LOC and proceeds from issuance of equity and debt securities. On May 4, 2015, we extended our current "at the market" offering program by entering into new separate equity distribution agreements with certain sales agents, pursuant to which we may sell, from time-to-time, shares of our common stock, par value $0.01 per share, having an aggregate offering price of up to $125.0 million. As of September 30, 2015, we have not sold any common stock under the equity distribution agreements. In addition, we have available liquidity in the form of authorized and unissued preferred stock of approximately 9.9 million shares and approximately 115.7 million shares of authorized but unissued common stock registered for sale under the Securities Act of 1933, as amended, by a shelf registration statement which was automatically effective when filed with the SEC. Our charter allows for us to issue up to 200.0 million shares of common stock, par value $0.01 per share and up to 10.0 million shares of preferred stock, par value $0.01 per share.
One of our stated objectives is to maintain financial flexibility. Achieving this objective allows us to take advantage of strategic opportunities that may arise. We believe effective management of our balance sheet, including maintaining various access points to raise capital, manage future debt maturities and borrow at competitive rates enables us to meet this objective. We believe we currently have sufficient liquidity, in the form of $84.4 million in available cash, net of restricted cash, as of September 30, 2015 and $400.0 million available on our LOC, to satisfy our near term obligations. Our LOC has a borrowing capacity of $400.0 million with the option to increase the borrowing capacity by $100.0 million, subject to certain conditions (see Note 7 to the Consolidated Financial Statements).
We expect to meet our short-term liquidity requirements, including the third quarter distribution of approximately $34.3 million paid on October 9, 2015, as well as all the remaining distributions, generally through available cash as well as net cash provided by operating activities and availability under our existing LOC. We consider these resources to be adequate to meet our operating requirements for capital improvements, amortizing debt and payment of dividends and distributions.
We expect to meet certain long-term liquidity requirements such as scheduled debt maturities, property acquisitions and capital improvements by use of our current cash balance, long-term collateralized and uncollateralized borrowings including borrowings under the existing LOC and the issuance of debt securities or additional equity securities, in addition to net cash provided by operating activities. As of September 30, 2015, we have no remaining scheduled debt maturities in 2015. We expect to satisfy our 2016 maturities with existing cash, anticipated operating cash flow and/or refinancing proceeds.

During the nine months ended September 30, 2015, we closed on loans with gross proceeds of $395.3 million. The loans have a weighted average maturity of 21 years and carry a weighted average interest rate of 3.93% per annum and were secured by 26 manufactured home properties and RV resorts. Proceeds from the financings were used to

retire by defeasance and prepayment approximately $370.2 million of loans maturing at various times throughout 2015 and 2016, with a weighted average interest rate of 5.58% per annum, which were secured by 32 manufactured home properties and RV resorts. We incurred approximately $17.0 million in early debt retirement expense related to these loans. We also paid off two maturing mortgage loans of approximately $48.7 million, with a weighted average interest rate of 5.73% per annum, secured by one manufactured home property and three RV resorts.

The table below summarizes cash flow activity for the nine months ended September 30, 2015 and 2014 (amounts in thousands):

	Nine Months Ended September 30,	
	2015	2014
Net cash provided by operating activities	$287,219	$228,342
Net cash used in investing activities	(95,260)	(81,432)
Net cash used in financing activities	(176,278)	(96,193)
Net increase in cash	$15,681	$50,717

Operating Activities

Net cash provided by operating activities increased $58.9 million to $287.2 million for the nine months ended September 30, 2015, from $228.3 million for the nine months ended September 30, 2014. The overall increase in net cash provided by operating activities is primarily due to an increase in Income from property operations of $19.0 million, a decrease in Escrow deposits, goodwill and other assets of $21.1 million, an increase of $10.9 million in Accrued expenses and accounts payable as well as an increase of $2.9 million in Rents received in advance and security deposits.

Investing Activities

Net cash used in investing activities was $95.3 million for the nine months ended September 30, 2015 compared to $81.4 million for the nine months ended September 30, 2014. Significant components of net cash used in investing activities include:

- We paid approximately $23.7 million in 2015 to acquire the Bogue Pines manufactured home property, Whispering Pines RV Resort, and Miami Everglades RV Resort. We paid approximately $54.6 million in 2014 to acquire the Blackhawk, Lakeland, Pine Acres, Echo Farms, and Mays Landing RV resorts as well as the Colony Cove land purchase (see Note 4 to the Consolidated Financial Statements for a description of our recent acquisitions).
- We received approximately $2.1 million in proceeds in 2014 from the condemnation of a certain parcel at our Seyenna Vista Property (see Note 4 to the Consolidated Financial Statements for additional detail regarding this 2014 disposition).
- We received approximately $10.6 million of the net deferred exchange deposits in 2014 which were used to acquire the Blackhawk and Lakeland RV resorts.
- We contributed $4.0 million to our ECHO JV in 2015 compared to the $3.5 million we invested in 2014. This is offset by $0.1 million and $0.4 million of distributions of capital from our joint ventures for the nine months ended September 30, 2015 and 2014, respectively (see Note 5 to the Consolidated Financial Statements for a description of our joint ventures).
- We received approximately $7.9 million of repayments on notes receivable in 2015 compared to $12.5 million in 2014, partially offset by new notes receivable of $7.7 million in 2015 compared to $7.3 million in 2014 (see Note 6 to the Consolidated Financial Statements for further discussion of our notes receivable).
- We paid approximately $67.8 million and $41.6 million for capital improvements during the nine months ended September 30, 2015 and 2014, respectively (see Capital Improvements table below).

Management's Discussion (continued)

Capital Improvements

The table below summarizes capital improvements activity for the nine months ended September 30, 2015 and 2014 (amounts in thousands):

	Nine Months Ended September 30,[1]	
	2015	2014
Recurring Capital Expenditures [2]	$26,196	$17,286
Property upgrades and site development	10,172	3,998
New home investments [3]	25,081	11,286
Used home investments	5,546	8,248
Total Property	66,995	40,818
Corporate	843	827
Total Capital improvements	$67,838	$41,645

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(1) Excludes non-cash activity of approximately $0.6 million and $1.0 million of used homes acquired by repossessions of Chattel Loans collateral for the nine months ended September 30, 2015 and 2014, respectively.

(2) Recurring capital expenditures are primarily comprised of common area improvements, furniture, and mechanical improvements.

(3) Excludes new home investment associated with our ECHO JV.

Financing Activities

Net cash used in financing activities was $176.3 million for the nine months ended September 30, 2015 compared to net cash used in financing activities of $96.2 million for the nine months ended September 30, 2014. Significant components of net cash used in financing activities include:

- We received $395.3 million in financing proceeds in 2015 and $169.0 million in 2014. (see Note 7 to the Consolidated Financial Statements for a description of our borrowing arrangements).
- We paid approximately $27.8 million of amortizing principal debt, approximately $48.7 million of maturing mortgages, defeased approximately $370.2 million of debt and paid a total of approximately $24.0 million in debt issuance and defeasance costs as well as early debt retirement costs in 2015. This compares to the refinancing of a $53.8 million loan secured by our Colony Cove community, as well as approximately $25.4 million of amortizing principal debt, approximately $86.3 million of maturing mortgages, and approximately $11.6 million in debt issuance and early debt retirement costs paid in 2014 (see Note 7 to the Consolidated Financial Statements for a description of our borrowing arrangements).
- We made distributions of approximately $105.1 million in 2015 to Common Stockholders, Common OP unitholders and preferred stockholders and paid approximately $0.4 million for offering costs and other expenses, offset by proceeds received of approximately $4.6 million from the exercise of stock options and the sale of shares through the employee stock purchase plan (see Note 3 to the Consolidated Financial Statements for a description of our equity transactions).
- We made distributions of approximately $88.8 million in 2014 to Common Stockholders, Common OP unitholders and preferred stockholders and paid approximately $0.2 million for offering costs, offset by proceeds received of approximately $0.9 million from the exercise of stock options and the sale of shares through the employee stock purchase plan (see Note 3 to the Consolidated Financial Statements for a description of our equity transactions).

Management's Discussion (continued)

Contractual Obligations

As of September 30, 2015, we were subject to certain contractual payment obligations as described in the table below (amounts in thousands):

	Total [5]	2015	2016	2017	2018	2019	Thereafter
Long Term Borrowings [1]	$2,146,513	$9,647	$119,122	$97,531	$230,046	$231,392	$1,458,775
Interest Expense [2]	717,679	25,769	100,327	92,490	83,251	68,566	347,276
Operating Lease	12,319	489	1,961	1,993	2,039	1,925	3,912
LOC Maintenance Fee [3]	2,266	204	811	811	440	—	—
Ground Lease [4]	19,863	558	1,967	1,972	1,969	1,975	11,422
Total Contractual Obligations	$2,898,640	$36,667	$224,188	$194,797	$317,745	$303,858	$1,821,385
Weighted average interest rates - Long Term Borrowings	4.52 %	4.81 %	4.79 %	4.72 %	4.63 %	4.41 %	4.32 %

(1) Balance excludes note premiums of $9.7 million. Balances include debt maturing and scheduled periodic principal payments.

(2) Amounts include interest expected to be incurred on our secured debt based on obligations outstanding as of September 30, 2015.

(3) As of September 30, 2015, assumes we will not exercise our one year extension option on July 17, 2018 and assumes we will maintain our current leverage ratios as defined by the LOC.

(4) We also lease land under non-cancelable operating leases at certain of the Properties expiring in various years from 2015 to 2054. The majority of the lease terms require twelve equal payments per year plus additional rents calculated as a percentage of gross revenues.

(5) We do not include insurance, property taxes and cancelable contracts in the contractual obligations table.

We believe that we will be able to refinance our maturing debt obligations on a secured or unsecured basis; however, to the extent we are unable to refinance our debt as it matures, we believe that we will be able to repay such maturing debt through available cash as well as operating cash flow, asset sales and/or the proceeds from equity issuances. With respect to any refinancing of maturing debt, our future cash flow requirements could be impacted by significant changes in interest rates or other debt terms, including required amortization payments.

Inflation

Substantially all of the leases at the Properties allow for monthly or annual rent increases which provide us with the opportunity to achieve increases, where justified by the market, as each lease matures. Such types of leases generally minimize our risks of inflation. In addition, our resort Properties are not generally subject to leases and rents are established for these Sites on an annual basis. Our right-to-use contracts generally provide for an annual dues increase, but dues may be frozen under the terms of certain contracts if the customer is over 61 years of age.

Off Balance Sheet Arrangements

As of September 30, 2015, we have no off balance sheet arrangements.

Funds From Operations

Funds from Operations ("FFO") is a non-GAAP financial measure. We believe FFO, as defined by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), is generally an appropriate measure of performance for an equity REIT. While FFO is a relevant and widely used measure of operating performance for equity REITs, it does not represent cash flow from operations or net income as defined by GAAP, and it should not be considered as an alternative to these indicators in evaluating liquidity or operating performance. We define FFO as net income, computed in accordance with GAAP, excluding gains and actual or estimated losses from sales of Properties, plus real estate related depreciation and amortization, impairments, if any, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint

ventures are calculated to reflect FFO on the same basis. We receive up-front non-refundable payments from the entry of right-to-use contracts. In accordance with GAAP, the up-front non-refundable payments and related commissions are deferred and amortized over the estimated customer life. Although the NAREIT definition of FFO does not address the treatment of non-refundable right-to-use payments, we believe that it is appropriate to adjust for the impact of the deferral activity in our calculation of FFO.

Normalized Funds from Operations ("Normalized FFO") is a non-GAAP measure. We define Normalized FFO as FFO excluding the following non-operating income and expense items: a) the financial impact of contingent consideration; b) gains and losses from early debt extinguishment, including prepayment penalties and defeasance costs; c) property acquisition and other transaction costs related to mergers and acquisitions; and d) other miscellaneous non-comparable items.

Management's Discussion (continued)

We believe that FFO and Normalized FFO are helpful to investors as supplemental measures of the performance of an equity REIT. We believe that by excluding the effect of depreciation, amortization and actual or estimated gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO can facilitate comparisons of operating performance between periods and among other equity REITs. We further believe that Normalized FFO provides useful information to investors, analysts and our management because it allows them to compare our operating performance to the operating performance of other real estate companies and between periods on a consistent basis without having to account for differences not related to our operations. For example, we believe that excluding the early extinguishment of debt, property acquisition and other transaction costs related to mergers and acquisitions and the change in fair value of our contingent consideration asset from Normalized FFO allows investors, analysts and our management to assess the sustainability of operating performance in future periods because these costs do not affect the future operations of the Properties. In some cases, we provide information about identified non-cash components of FFO and Normalized FFO because it allows investors, analysts and our management to assess the impact of those items.

Investors should review FFO and Normalized FFO along with GAAP net income and cash flow from operating activities, investing activities and financing activities, when evaluating an equity REIT's operating performance. We compute FFO in accordance with our interpretation of standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. Normalized FFO presented herein is not necessarily comparable to normalized FFO presented by other real estate companies due to the fact that not all real estate companies use the same methodology for computing this amount. FFO and Normalized FFO do not represent cash generated from operating activities in accordance with GAAP, nor do they represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance, or to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

The following table presents a calculation of FFO available for Common Shares and Normalized FFO available for Common Shares for the quarters and nine months ended September 30, 2015 and 2014 (amounts in thousands):

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Computation of FFO and Normalized FFO:				
Net income available for Common Shares	$36,673	$25,746	$95,644	$89,328
Income allocated to common OP units	3,136	2,219	8,191	7,929
Right-to-use contract upfront payments, deferred, net	1,701	1,989	3,929	4,303
Right-to-use contract commissions, deferred, net	(464)	(757)	(1,471)	(2,022)
Depreciation on real estate assets	25,747	25,058	76,811	74,947
Depreciation on rental homes	2,663	2,773	8,050	8,287
Amortization of in-place leases	616	1,075	1,950	3,791
Depreciation on unconsolidated joint ventures	274	228	799	690
Gain on sale of property	—	(929)	—	(929)
FFO available for Common Shares	70,346	57,402	193,903	186,324
Change in fair value of contingent consideration asset	—	—	—	(65)
Transaction costs	121	620	603	1,151
Early debt retirement	—	5,087	16,922	5,087
Normalized FFO available for Common Shares	$70,467	$63,109	$211,428	$192,497
Weighted average Common Shares outstanding – fully diluted	91,940	91,528	91,877	91,471

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Item 3. Quantitative and Qualitative Disclosure of Market Risk

We disclosed a quantitative and qualitative analysis regarding market risk in Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk on Form 10-K for the year ended December 31, 2014. There have been no material changes in the assumptions used or results obtained regarding market risk since December 31, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to give reasonable assurances to the timely collection, evaluation and disclosure of information relating to us that would potentially be subject to disclosure under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations promulgated thereunder as of September 30, 2015.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within us to disclose material information otherwise required to be set forth in our periodic reports.

Changes in Internal Control Over Financial Reporting

During the third quarter of 2015, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings
See Note 12 of the Consolidated Financial Statements contained herein.

Item 1A. Risk Factors

There have been no material changes to the risk factors discussed in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 other than those disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosure
None.

Item 5. Other Information
None.

Item 6. Exhibit Index

31.1	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
101	The following materials from Equity LifeStyle Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flow, and (v) Notes to Consolidated Financial Statements, filed herewith.

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

EQUITY LIFESTYLE PROPERTIES, INC.

Date: October 28, 2015

By: /s/ Marguerite Nader
Marguerite Nader
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 28, 2015

By: /s/ Paul Seavey
Paul Seavey
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

Date: October 28, 2015

By: /s/ Ann Wallin
Ann Wallin
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

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D> 72,676 75,831

Foreign

38,890 35,103 33,834 32,515

Total Non-Bank legal entities	102,220	105,225	106,510	108,346
Total	$190,865	$193,169	$192,170	$195,637

(1) The Company calculates the average Global Liquidity Reserve based upon daily amounts.
(2) The Parent managed $46,210 million and $55,094 million at September 30, 2015 and December 31, 2014, respectively, and averaged $53,730 million and $56,284 million for the nine months ended September 30, 2015 and 2014, respectively.

Regulatory Framework for Liquidity Risk Measurement.

The U.S. banking agencies and the Basel Committee have adopted, or are in the process of considering liquidity standards. The Basel Committee has developed two standards intended for use in liquidity risk supervision: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

For a discussion of the Company s LCR and NSFR, see MD&A Liquidity and Capital Resources Liquidity Risk Management Framework Basel Liquidity Framework Liquidity Coverage Ratio and Net Stable Funding Ratio in Part II, Item 7 of the 2014 Form 10-K.

Funding Management.

The Company manages its funding in a manner that reduces the risk of disruption to the Company s operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Company s liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds its balance sheet on a global basis through diverse sources. These sources may include the Company s equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Company has active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing.

For a discussion of the Company s secured financing activities, see MD&A Liquidity and Capital Resources Funding Management Secured Financing in Part II, Item 7 of the 2014 Form 10-K.

At September 30, 2015 and December 31, 2014, the weighted average maturity of the Company s secured financing against less liquid assets was greater than 120 days.

Unsecured Financing.

For a discussion of the Company s unsecured financing activities, see MD&A Liquidity and Capital Resources Funding Management Unsecured Financing in Part II, Item 7 of the 2014 Form 10-K. When appropriate, the Company may use derivative products to conduct asset and liability management and to make adjustments to the Company s interest rate and structured borrowings risk profile (see Note 4 to the Company s condensed consolidated financial statements in Item 1).

Deposits.

Available funding sources to the Company s bank subsidiaries include time deposits, money market deposit accounts, demand deposit accounts, repurchase agreements, federal funds purchased, commercial paper and Federal Home Loan Bank advances. The vast majority of deposits in the Company s U.S. Bank Subsidiaries are sourced from the Company s retail brokerage accounts and are considered to have stable, low-cost funding characteristics. The transfer of deposits previously held by Citi to the Company s depository institutions relating to the Company s customer accounts from its acquisition of the Wealth Management JV (see Note 3 to the Company s consolidated financial statements in Item 8 of the 2014 Form 10-K) was completed at June 30, 2015. During 2015, $8.7 billion of deposits were transferred by Citi to the Company s depository institutions.

Deposits were as follows:

	At September 30, 2015(1)	At December 31, 2014(1)
	(dollars in millions)	
Savings and demand deposits	$ 143,543	$ 132,159
Time deposits	3,683	1,385
Total	$ 147,226	$ 133,544

(1) Total deposits subject to FDIC insurance at September 30, 2015 and December 31, 2014 were $107 billion and $99 billion, respectively.

Short-Term Borrowings.

The Company s unsecured Short-term borrowings may consist of bank loans, bank notes, commercial paper and structured notes with maturities of twelve months or less at issuance. At September 30, 2015 and December 31, 2014, the Company had approximately $1,982 million and $2,261 million, respectively, in Short-term borrowings.

Long-Term Borrowings.

The Company believes that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long-term debt allows the Company to reduce reliance on short-term credit sensitive instruments (*e.g.*, commercial paper and other unsecured short-term borrowings). Long-term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, the Company s credit ratings and the overall availability of credit.

The Company may engage in various transactions in the credit markets (including, for example, debt retirements) that it believes are in the best interests of the Company and its investors.

Long-term borrowings by maturity profile at September 30, 2015 consisted of the following:

	Parent	Subsidiaries	Total
		(dollars in millions)	
Due in 2015	$ 8,405	$ 2,381	$ 10,786
Due in 2016	18,202	1,568	19,770
Due in 2017	21,321	1,115	22,436
Due in 2018	17,111	822	17,933
Due in 2019	17,699	640	18,339
Thereafter	68,602	2,477	71,079
Total	$ 151,340	$ 9,003	$ 160,343

The Company s long-term borrowings included the following components:

	At September 30, 2015	At December 31, 2014
	(dollars in millions)	
Senior debt	$ 146,899	$ 139,565
Subordinated debt	10,575	8,339
Junior subordinated debentures	2,869	4,868
Total	$ 160,343	$ 152,772

During the nine months ended September 30, 2015, the Company issued notes with a principal amount of approximately $30.2 billion. In connection with these note issuances, the Company generally enters into certain transactions to obtain floating interest rates. The weighted average maturity of the Company s long-term borrowings, based upon stated maturity dates, was approximately 5.9 years at September 30, 2015. During the nine months ended September 30, 2015, approximately $17.6 billion in aggregate long-term borrowings matured or were retired. Subsequent to September 30, 2015 and through October 30, 2015, the Company s long-term borrowings decreased by approximately $2.3 billion, net of issuances. For a further discussion of the Company s long-term borrowings, including the amount of senior debt outstanding at September 30, 2015, see Note 10 to the Company s condensed consolidated financial statements in Item 1.

During May of 2015, Morgan Stanley Capital Trusts VI and VII redeemed all of their issued and outstanding 6.60% Capital Securities, respectively.

Capital Covenants.

In April 2007, the Company executed replacement capital covenants in connection with an offering by Morgan Stanley Capital Trust VIII Capital Securities, which become effective after the scheduled redemption date in 2046. Under the terms of the replacement capital covenants, the Company has agreed, for the benefit of certain specified holders of debt, to limitations on its ability to redeem or repurchase any of the Capital Securities for specified periods of time. For a complete description of the Capital Securities and the terms of the replacement capital covenants, see the Company s Current Report on Form 8-K dated April 26, 2007.

Credit Ratings.

The Company relies on external sources to finance a significant portion of its day-to-day operations. The cost and availability of financing generally are impacted by, among other things, the Company s credit ratings. In addition, the Company s credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Rating agencies consider company-specific factors; other industry factors such as regulatory or legislative changes; the macroeconomic environment; and perceived levels of government support, among other

things.

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Some rating agencies have stated that they currently incorporate various degrees of credit rating uplift from external sources of potential support, as well as perceived government support of systemically important banks, including the credit ratings of the Company. Rating agencies continue to monitor the progress of U.S. financial reform legislation and regulations to assess whether the possibility of extraordinary government support for the financial system in any future financial crises is negatively impacted. Legislative and rulemaking outcomes may lead to reduced uplift assumptions for U.S. banks and, thereby, place downward pressure on credit ratings. At the same time, proposed and final U.S. financial reform legislation and attendant rulemaking, such as higher standards for capital and liquidity levels, also have positive implications for credit ratings. The net result on credit ratings and the timing of any change in rating agency views on changes in potential government support and financial reform efforts are currently uncertain.

At November 2, 2015, the Parent s and MSBNA s senior unsecured ratings were as set forth below:

	Parent			Morgan Stanley Bank, N.A.		
	Short-Term Debt	Long-Term Debt	Rating Outlook	Short-Term Debt	Long-Term Debt	Rating Outlook
DBRS, Inc.	R-1 (middle)	A (high)	Stable			
Fitch Ratings, Inc.(1)	F1	A	Stable	F1	A+	Stable
Moody s Investors Service(2)	P-2	A3	Stable	P-1	A1	Stable
Rating and Investment Information, Inc.	a-1	A	Negative			
Standard & Poor s Ratings Services(3)	A-2	A-	Negative Watch	A-1	A	Positive Watch

(1) On May 19, 2015, Fitch Ratings Inc. upgraded the long-term ratings of MSBNA by one notch to A+ from A. The rating outlook remained stable.
(2) On May 28, 2015, Moody s Investors Service (Moody s) upgraded the long-term ratings of the Parent and MSBNA by two notches to A3 from Baa2 and A1 from A3, respectively. The rating outlook for the Parent and MSBNA were revised to stable.
(3) On November 2, 2015, Standard and Poor s Ratings Services (S&P) revised the ratings outlook for the Parent from negative to negative watch, and for MSBNA from positive to positive watch.

In connection with certain OTC trading agreements and certain other agreements where the Company is a liquidity provider to certain financing vehicles associated with the Company s Institutional Securities business segment, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether the Company is in a net asset or net liability position.

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody s and S&P. At September 30, 2015 and December 31, 2014, the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organizations in the event of one-notch or two-notch downgrade scenarios, from the lowest of Moody s or S&P ratings, based on the relevant contractual downgrade triggers were as follows:

	At September 30, 2015	At December 31, 2014
	(dollars in millions)	
Incremental collateral or terminating payments upon potential future ratings downgrade:		
One-notch downgrade	$ 1,266	$ 1,856
Two-notch downgrade	1,384	2,984

While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact it will have on the Company s business and results of operation in future periods is inherently uncertain and will depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions the Company may take. The liquidity impact of additional collateral requirements is included in the Company s Liquidity Stress Tests.

Capital Management.

The Company s senior management views capital as an important source of financial strength. The Company actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses. The Company attempts to maintain total capital, on a consolidated basis, at least equal to the sum of its operating subsidiaries required equity.

In March 2015, the Company received no objection from the Federal Reserve to its 2015 capital plan. The capital plan included a share repurchase of up to $3.1 billion of the Company s outstanding common stock that began in the second quarter of 2015 through the end of the second quarter of 2016. Additionally, the capital plan included an increase in the Company s quarterly common stock dividend to $0.15 per share from $0.10 per share, that began with the dividend declared on April 20, 2015. During the quarter and nine months ended September 30, 2015 the Company repurchased approximately $625 million and $1,500 million, respectively, of the Company s outstanding common stock as part of its share repurchase program. During the quarter and nine months ended September 30, 2014, the Company repurchased approximately $195 million and $629 million, respectively, of the Company s outstanding common stock as part of its share repurchase program (see Note 14 to the Company s condensed consolidated financial statements in Item 1).

Pursuant to the share repurchase program, the Company considers, among other things, business segment capital needs as well as equity-based compensation and benefit plan requirements. Share repurchases under the Company s program will be exercised from time to time at prices the Company deems appropriate subject to various factors, including the Company s capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans, and may be suspended at any time. Share repurchases by the Company are subject to regulatory approval (see also Unregistered Sales of Equity Securities and Uses of Proceeds in Part II, Item 2).

The Company s Board of Directors determines the declaration and payment of dividends on a quarterly basis. On October 19, 2015, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.15. The dividend is payable on November 13, 2015 to common shareholders of record on October 30, 2015 (see Note 20 to the Company s condensed consolidated financial statements in Item 1).

Issuance of Preferred Stock.

Series J Preferred Stock. On March 19, 2015, the Company issued 1,500,000 Depositary Shares for an aggregate price of $1,500 million. Each Depositary Share represents a 1/25th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series J, $0.01 par value (Series J Preferred Stock). The Series J Preferred Stock is redeemable at the Company s option (i) in whole or in part, from time to time, on any dividend payment date on or after July 15, 2020 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $1,000 per Depositary Share), plus any declared and unpaid dividends to, but excluding, the date fixed for redemption, without accumulation of any undeclared dividends. The Series J Preferred Stock also has a preference over the Company s common stock upon liquidation. The Series J Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $1,493 million.

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On September 15, 2015, the Company announced that its Board of Directors declared a quarterly dividend for preferred stock shareholders of record on September 30, 2015, that was paid on October 15, 2015 as follows:

Series	Preferred Stock Description	Quarterly Dividend Per Share(1)
A	Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.25556)	$255.56
C	10% Non-Cumulative Non-Voting Perpetual Preferred Stock	25.00
E	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.44531)	445.31
F	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.42969)	429.69
G	6.625% Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.41406)	414.06
I	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.39844)	398.44

(1) The Company has outstanding Series H and Series J Preferred Stock for which a dividend declaration date did not occur during the third quarter of 2015, in accordance with the terms thereof.

Tangible Equity.

The following table sets forth tangible Morgan Stanley shareholders equity and tangible common equity at September 30, 2015 and December 31, 2014 and average tangible Morgan Stanley shareholders equity and average tangible common equity for the nine months ended September 30, 2015 and 2014:

	Balance at		Average Balance(1) For the Nine Months Ended September 30,	
	September 30, 2015	December 31, 2014	2015	2014
	(dollars in millions)			
Common equity	$ 67,767	$ 64,880	$ 66,723	$ 64,660
Preferred equity	7,520	6,020	7,070	4,400
Morgan Stanley shareholders equity	75,287	70,900	73,793	69,060
Junior subordinated debentures issued to capital trusts	2,869	4,868	3,870	4,865
Less: Goodwill and net intangible assets(2)	(9,652)	(9,742)	(9,683)	(9,763)
Tangible Morgan Stanley shareholders equity(3)	$ 68,504	$ 66,026	$ 67,980	$ 64,162
Common equity	$ 67,767	$ 64,880	$ 66,723	$ 64,660
Less: Goodwill and net intangible assets(2)	(9,652)	(9,742)	(9,683)	(9,763)
Tangible common equity(3)	$ 58,115	$ 55,138	$ 57,040	$ 54,897

(1) Average balances were based upon month-end balances.
(2) The deduction for Goodwill and net intangible assets is partially offset by mortgage servicing rights (MSR), net of disallowable MSR, at September 30, 2015, and at December 31, 2014.
(3) Tangible Morgan Stanley shareholders equity and tangible common equity are non-GAAP financial measures that the Company and its investors consider to be a useful measure to assess capital adequacy.

Regulatory Requirements.

Regulatory Capital Framework.

The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act), and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company s compliance with such capital requirements. The Office of the Comptroller of the Currency (OCC) establishes similar capital requirements and standards for the Company s U.S. Bank Subsidiaries.

Implementation of U.S. Basel III.

The U.S. banking regulators have comprehensively revised their risk-based and leverage capital framework to implement many aspects of the Basel III capital standards established by the Basel Committee. The U.S. banking regulators revised capital framework is referred to herein as U.S. Basel III. The Company and its U.S. Bank Subsidiaries became subject to U.S. Basel III on January 1, 2014. Aspects of U.S. Basel III, such as the minimum risk-based capital ratio requirements, new capital buffers, and certain deductions from and adjustments to capital, will be phased in over several years.

Regulatory Capital. Under U.S. Basel III, new items (including certain investments in the capital instruments of unconsolidated financial institutions) are deducted from the respective tiers of regulatory capital, and certain existing regulatory deductions and adjustments are modified or are no longer applicable. The majority of these capital deductions are subject to a phase-in schedule and will be fully phased in by 2018. Unrealized gains and losses on AFS securities are reflected in Common Equity Tier 1 capital, subject to a phase-in schedule. The percentage of the regulatory deductions and adjustments to Common Equity Tier 1 capital that applied to the Company at September 30, 2015 and December 31, 2014 ranged from 20% to 100%, depending on the specific item.

In addition, U.S. Basel III narrows the eligibility criteria for regulatory capital instruments. Existing trust preferred securities will be fully phased-out of the Company s Tier 1 capital by January 1, 2016. Thereafter, existing trust preferred securities that do not satisfy U.S. Basel III s eligibility criteria for Tier 2 capital will be phased out of the Company s regulatory capital by January 1, 2022.

In addition, beginning with the third quarter of 2015, the required deductions under the new restrictions on activities and investments imposed by a section of the BHC Act added by the Dodd-Frank Act, referred to as the Volcker Rule, are reflected in the relevant regulatory capital tiers and ratios (see Activities Restrictions under the Volcker Rule herein).

Risk-Weighted Assets. The Company is required to calculate and hold capital against credit, market and operational risk RWAs. RWAs reflect both on- and off-balance sheet risk of the Company. Credit risk RWAs reflect capital charges attributable to the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. Market risk RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. For a further discussion of the Company s market and credit risks, see Quantitative and Qualitative Disclosures about Market Risk in Item 3. Operational risk RWAs reflect capital charges attributable to the risk of loss resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, theft, legal and compliance risks or damage to physical assets). The Company may incur operational risks across the full scope of its business activities, including revenue-generating activities (*e.g.*, sales and trading) and control groups (*e.g.*, information technology and trade processing). In addition, given the evolving regulatory and litigation environment across the financial services industry and that operational risk RWAs incorporate the impact of such related matters, operational risk RWAs may increase in future periods.

The Basel Committee is in the process of considering revisions to various provisions of the Basel III framework that, if adopted by the U.S. banking agencies, could result in substantial changes to U.S. Basel III. In particular, the Basel Committee has finalized a new methodology for calculating counterparty credit risk exposures, the

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standardized approach for measuring counterparty credit risk exposures; has also finalized a revised framework establishing capital requirements for securitizations; and has proposed revisions to various regulatory capital standards, including for trading and banking book exposures, interest rate risk in the banking book, the credit valuation adjustment, the credit risk framework, operational risk and capital floors. In each case, the impact of these revised standards on the Company and its U.S. Bank Subsidiaries is uncertain and depends on future rulemakings by the U.S. banking agencies.

Calculation of Risk-Based Capital Ratios. As a U.S. Basel III Advanced Approach banking organization, the Company is subject to a permanent capital floor based on the lower of the risk-based capital ratios calculated using (i) standardized approaches for calculating credit risk RWAs and market risk RWAs (the Standardized Approach); and (ii) an advanced internal ratings-based approach for calculating credit risk RWAs, an advanced measurement approach for calculating operational risk RWAs, and an advanced approach for calculating market risk RWAs (the Advanced Approach) under U.S. Basel III. The capital floor applies to the calculation of the minimum risk-based capital requirements and, when in effect, the capital conservation buffer, the countercyclical capital buffer (if deployed by banking regulators), and the global systemically important bank (G-SIB) capital surcharge.

The methods for calculating each of the Company s risk-based capital ratios will change through January 1, 2022 as aspects of U.S. Basel III are phased in. These ongoing methodological changes may result in differences in the Company s reported capital ratios from one reporting period to the next that are independent of changes to the Company s capital base, asset composition, off-balance sheet exposures or risk profile.

For information on the basis for the calculation of the Company s U.S. Basel III capital ratios, on a transitional and fully phased-in basis, see MD&A Liquidity and Capital Resources Regulatory Requirements Implementation of U.S. Basel III Calculation of Risk-Based Capital Ratios in Part II, Item 7 of the 2014 Form 10-K.

Regulatory Capital Ratios. The Company is required to calculate capital ratios under both the Advanced Approach and the Standardized Approach, in both cases subject to transitional provisions. The following table presents the Company s regulatory capital ratios at September 30, 2015, as well as the minimum required regulatory capital ratios applicable under U.S. Basel III in 2015.

	At September 30, 2015		Minimum Regulatory Capital Ratio(1)(2)
	Actual Capital Ratio		
	U.S. Basel III Transitional/ Standardized Approach	U.S. Basel III Transitional/ Advanced Approach	2015
Common Equity Tier 1 capital ratio	14.4%	14.0%	4.5%
Tier 1 capital ratio	16.2%	15.6%	6.0%
Total capital ratio	19.4%	18.6%	8.0%
Tier 1 leverage ratio(3)	8.1%	8.1%	4.0%

(1) Percentages represent minimum regulatory capital ratios for calendar year 2015 under U.S. Basel III.
(2) On a fully phased-in basis by 2019, the Company will be subject to a greater than 2.5% Common Equity Tier 1 capital conservation buffer, a G-SIB capital surcharge and, if deployed by banking regulators, up to a 2.5% Common Equity Tier 1 countercyclical buffer. The capital conservation buffer, G-SIB capital surcharge, and countercyclical capital buffer, if any, apply over each of the Company s Common Equity Tier 1, Tier 1 and Total risk-based capital ratios. For information on the recently adopted G-SIB capital surcharge, see G-SIB Capital Surcharge herein.
(3) Tier 1 leverage ratio equals Tier 1 capital divided by the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the calendar quarter, adjusted for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

Beginning on January 1, 2015, for the Company to remain a financial holding company, its U.S. Bank Subsidiaries must qualify as well-capitalized under the higher capital requirements of U.S. Basel III by maintaining a total risk-based capital ratio (total capital to risk-weighted assets) of at least 10%, a Tier 1 risk-

based capital ratio of at least 8%, a Common Equity Tier 1 risk-based capital ratio of at least 6.5%, and a Tier 1 leverage ratio of at least 5%. The Federal Reserve has not yet revised the well-capitalized standard for financial holding companies to reflect the higher capital standards in U.S. Basel III. Assuming that the Federal Reserve would apply the same or very similar well-capitalized standards to financial holding companies, each of the Company s risk-based capital ratios and Tier 1 leverage ratio at September 30, 2015 would have exceeded the revised well-capitalized standard. The Federal Reserve may require the Company and its peer financial holding companies to maintain risk- and leverage-based capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a financial holding company s particular condition, risk profile and growth plans.

At September 30, 2015, the Company s capital ratios calculated under the U.S. Basel III Advanced Approach were lower than those calculated under the U.S. Basel III Standardized Approach and therefore are the binding ratios for the Company as a result of the capital floor. At December 31, 2014, the Company s capital ratios calculated under the U.S. Basel III Advanced Approach were lower than those calculated under the Standardized Approach, represented as the U.S. banking regulators U.S. Basel I-based rules (U.S. Basel I) as supplemented by rules that implemented the Basel Committee s market risk capital framework amendment, commonly referred to as Basel 2.5 . The table below presents the Company s RWAs and regulatory capital ratios under the U.S. Basel III Advanced Approach transitional rules at September 30, 2015 and December 31, 2014.

	At September 30, 2015	At December 31, 2014
	(dollars in millions)	
RWAs:		
Credit risk	$ 181,214	$ 184,645
Market risk	101,459	121,363
Operational risk	140,569	150,000
Total RWAs	$ 423,242	$ 456,008
Capital ratios:		
Common Equity Tier 1 ratio	14.0%	12.6%
Tier 1 capital ratio	15.6%	14.1%
Total capital ratio	18.6%	16.4%
Tier 1 leverage ratio	8.1%	7.9%
Adjusted average assets(1)	$ 816,722	$ 810,524

(1) Beginning with the first quarter of 2015, in accordance with U.S. Basel III, adjusted average assets represent the denominator of the Tier 1 leverage ratio and were composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the calendar quarter, adjusted for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

The following table represents a roll-forward of the Company s Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital calculated under the U.S. Basel III Advanced Approach transitional rules from December 31, 2014 to September 30, 2015 (dollars in millions).

Common Equity Tier 1 capital:	
Common Equity Tier 1 capital at December 31, 2014	$ 57,324
Change related to the following items:	
Value of shareholders common equity	2,887
Net goodwill	(34)
Net intangible assets (other than goodwill and mortgage servicing assets)	(594)
Credit spread premium over risk-free rate for derivative liabilities	(61)
Net deferred tax assets	(369)
Debt valuation adjustment	(34)
Adjustments related to accumulated other comprehensive income	(159)
Expected credit loss that exceeds eligible credit reserves	10
Other deductions and adjustments	86
Common Equity Tier 1 capital at September 30, 2015	$ 59,056
Additional Tier 1 capital:	
Additional Tier 1 capital at December 31, 2014	$ 6,858
New issuance of qualifying preferred stock	1,500
Change related to the following items:	
Trust preferred securities	(1,732)
Nonredeemable noncontrolling interests	(245)
Net deferred tax assets	895
Credit spread premium over risk-free rate for derivative liabilities	311
Debt valuation adjustment	(444)
Expected credit loss that exceeds eligible credit reserves	39
Other adjustments and deductions	(167)
Additional Tier 1 capital at September 30, 2015	$ 7,015
Tier 1 capital (Common Equity Tier 1 capital plus Additional Tier 1 capital) at September 30, 2015	$ 66,071
Tier 2 capital:	
Tier 2 capital at December 31, 2014	$ 10,790
Change related to the following items:	
Subordinated debt	2,236
Trust preferred securities	(329)
Nonredeemable noncontrolling interests	15
Other adjustments and deductions	138
Tier 2 capital at September 30, 2015	$ 12,850
Total capital at September 30, 2015	$ 78,921

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The following table summarizes the Company s Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital calculated under the U.S. Basel III Advanced Approach transitional rules at September 30, 2015 and December 31, 2014:

	At September 30, 2015	At December 31, 2014
	(dollars in millions)	
Common Equity Tier 1 capital:		
Common stock and surplus	$ 20,440	$ 21,503
Retained earnings	48,746	44,625
Accumulated other comprehensive (loss)	(1,419)	(1,248)
Regulatory adjustments and deductions:		
Net goodwill	(6,646)	(6,612)
Net intangible assets (other than goodwill and mortgage servicing assets)	(1,226)	(632)
Credit spread premium over risk-free rate for derivative liabilities	(222)	(161)
Net deferred tax assets	(949)	(580)
Debt valuation adjustment	124	158
Adjustments related to accumulated other comprehensive income	303	462
Expected credit loss over eligible credit reserves		(10)
Other adjustments and deductions	(95)	(181)
Total Common Equity Tier 1 capital	$ 59,056	$ 57,324
Additional Tier 1 capital:		
Preferred stock	$ 7,520	$ 6,020
Trust preferred securities	702	2,434
Nonredeemable noncontrolling interests	759	1,004
Regulatory adjustments and deductions:		
Net deferred tax assets	(1,423)	(2,318)
Credit spread premium over risk-free rate for derivative liabilities	(333)	(644)
Debt valuation adjustment	186	630
Expected credit loss over eligible credit reserves		(39)
Other adjustments and deductions	(396)	(229)
Additional Tier 1 capital	$ 7,015	$ 6,858
Total Tier 1 capital	$ 66,071	$ 64,182
Tier 2 capital:		
Subordinated debt	$ 10,575	$ 8,339
Trust preferred securities	2,105	2,434
Other qualifying amounts	42	27
Regulatory adjustments and deductions	128	(10)
Total Tier 2 capital	$ 12,850	$ 10,790
Total capital	$ 78,921	$ 74,972

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The following table represents a roll-forward of the Company s RWAs calculated under the U.S. Basel III Advanced Approach transitional rules from December 31, 2014 to September 30, 2015. The RWAs for each category in the table reflect both on- and off-balance sheet exposures, where appropriate (dollars in millions).

Credit risk RWAs:	
Balance at December 31, 2014	$ 184,645
Change related to the following items:	
Derivatives	(3,737)
Securities financing transactions	1,932
Other counterparty credit risk	(198)
Securitizations	1,596
Credit valuation adjustment	(2,904)
Investment securities	1,508
Loans	5,295
Cash	(466)
Equity investments	(4,789)
Other credit risk(1)	(1,668)
Total change in credit risk RWAs	$ (3,431)
Balance at September 30, 2015	$ 181,214
Market risk RWAs:	
Balance at December 31, 2014	$ 121,363
Change related to the following items:	
Regulatory VaR	562
Regulatory stressed VaR	840
Incremental risk charge	(8,084)
Comprehensive risk measure	(1,011)
Specific risk:	
Non-securitizations	(1,925)
Securitizations	(10,286)
Total change in market risk RWAs	$ (19,904)
Balance at September 30, 2015	$ 101,459
Operational risk RWAs:	
Balance at December 31, 2014	$ 150,000
Changes during the period(2)	(9,431)
Balance at September 30, 2015	$ 140,569

VaR Value-at-Risk.

(1) Amount reflects assets not in a defined category, non-material portfolios of exposures and unsettled transactions.
(2) Amount primarily reflects model recalibration related to residential mortgage litigation expense recorded in the fourth quarter of 2014.

Pro Forma Regulatory Capital Ratios. The following table presents the Company s pro forma estimates under the fully phased-in U.S. Basel III Advanced and Standardized Approaches at September 30, 2015:

	At September 30, 2015 Fully Phased-In Basis Pro Forma Estimates	
	U.S. Basel III Advanced Approach	U.S. Basel III Standardized Approach
	(dollars in millions)	
Common Equity Tier 1 capital	$ 54,513	$ 54,513
RWAs	433,745	418,609
Common Equity Tier 1 ratio	12.6%	13.0%

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These fully phased-in basis pro forma estimates are based on the Company s current understanding of U.S. Basel III and other factors, which may be subject to change as the Company receives additional clarification and implementation guidance from the Federal Reserve relating to U.S. Basel III and as the interpretation of the regulation evolves over time. The fully phased-in basis pro forma Common Equity Tier 1 capital, RWAs and Common Equity Tier 1 risk-based capital ratio estimates are non-GAAP financial measures that the Company considers to be useful measures for evaluating compliance with new regulatory capital requirements that were not yet effective at September 30, 2015. These preliminary estimates are subject to risks and uncertainties that may cause actual results to differ materially and should not be taken as a projection of what the Company s capital ratios, RWAs, earnings or other results will actually be at future dates. See Risk Factors in Part I, Item 1A of the 2014 Form 10-K for a discussion of risks and uncertainties that may affect the future results of the Company.

As of January 1, 2015, the Company is subject to the following minimum capital ratios under U.S. Basel III: Common Equity Tier 1 capital ratio of 4.5%; Tier 1 capital ratio of 6.0%; Total capital ratio of 8.0%; and Tier 1 leverage ratio of 4.0%. As of January 1, 2018, the Company will be subject to a supplementary leverage ratio requirement of at least 5.0%, which includes a Tier 1 supplementary leverage capital buffer of at least 2.0% in addition to the 3.0% minimum supplementary leverage ratio (see Supplementary Leverage Ratio herein). In addition, on a fully phased-in basis by 2019, the Company will be subject to a greater than 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed by banking regulators, up to a 2.5% Common Equity Tier 1 countercyclical buffer. The capital conservation buffer and countercyclical capital buffer, if any, apply over each of the Company s Common Equity Tier 1, Tier 1 and Total risk-based capital ratios. Failure to maintain such buffers will result in restrictions on the Company s ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. In July 2015, the Federal Reserve issued a final rule imposing risk-based capital surcharges, which augment the capital conservation buffer, on U.S. bank holding companies that are identified as G-SIBs (see G-SIB Capital Surcharge herein).

G-SIB Capital Surcharge.

In July 2015, the Federal Reserve issued a final rule imposing risk-based capital surcharges on U.S. bank holding companies that are identified as G-SIBs, which include the Company. Under the final rule, a G-SIB must calculate its G-SIB capital surcharge under two methods and use the higher of the two surcharges. The first method considers the G-SIB s size, interconnectedness, cross-jurisdictional activity, substitutability and complexity, which is generally consistent with the methodology developed by the Basel Committee. The second method uses similar inputs, but replaces substitutability with the use of short-term wholesale funding and generally results in higher surcharges than the first method. Under the final rule, the G-SIB capital surcharge must be satisfied using Common Equity Tier 1 capital and will function as an extension of the capital conservation buffer. The Federal Reserve has stated that, under the final rule and using the most recent available data, the estimated G-SIB surcharges will range from 1.0% to 4.5% of a GSIB s RWAs. Under the Federal Reserve s calculation for the Company, the Company s G-SIB surcharge would be 3%. The surcharge will be phased in between January 1, 2016 and January 1, 2019.

Total Loss-Absorbing Capacity.

On October 30, 2015, the Federal Reserve issued a proposal for top-tier bank holding companies of U.S. G-SIBs (covered BHCs), including the Company, which establishes external total loss-absorbing capacity (TLAC) requirements. The proposal contains various definitions and restrictions, such as requiring eligible long-term debt to be unsecured, to have a maturity greater than one year, and not include certain debt with derivative-linked features, such as certain structured notes. Under the proposal, a covered BHC would be required to maintain a minimum external TLAC of the greater of 16% of RWAs, excluding regulatory buffers, and 9.5% of the denominator of its U.S. Basel III total leverage exposure by January 1, 2019, increasing to the greater of 18% of RWAs, excluding regulatory buffers, and 9.5% of the denominator of its U.S. Basel III total leverage exposure

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by January 1, 2022. In addition, covered BHCs must meet the external TLAC requirement with minimum eligible long-term debt equal to the greater of 6% of RWAs plus the G-SIB capital surcharge, and 4.5% of the denominator of its U.S. Basel III total leverage exposure. The proposal would also impose restrictions on other liabilities that covered BHCs incur or have outstanding, as well as require all U.S. banking organizations supervised by the Federal Reserve with assets of at least $1 billion to make certain deductions from capital for their investments in unsecured debt issued by covered BHCs. The Company is currently reviewing the proposal and evaluating the potential impact of these proposed requirements.

***Capital Plans and Stress Tests*.**

Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large bank holding companies, including the Company, which form part of the Federal Reserve s annual Comprehensive Capital Analysis and Review (CCAR) framework. Under the Federal Reserve s capital plan rule, the Company must submit an annual capital plan to the Federal Reserve, taking into account the results of separate stress tests designed by the Company and the Federal Reserve, so that the Federal Reserve may assess the Company s systems and processes that incorporate forward-looking projections of revenues and losses to monitor and maintain its internal capital adequacy. The capital plan rule requires that such companies receive no objection from the Federal Reserve before making a capital distribution. In addition, even with an approved capital plan, a large bank holding company must seek the approval of the Federal Reserve before making a capital distribution if, among other reasons, it would not meet its regulatory capital requirements after making the proposed capital distribution. In addition, the Federal Reserve s final rule on stress testing under the Dodd-Frank Act requires the Company to conduct semi-annual company-run stress tests. The rule also subjects the Company to an annual supervisory stress test conducted by the Federal Reserve.

The Company submitted its 2015 annual capital plan to the Federal Reserve in January 2015 and received no objection to the plan (see Capital Management herein). In March 2015, the Federal Reserve published summary results of the Dodd-Frank Act and CCAR supervisory stress tests of each large bank holding company, including the Company. As required, the Company disclosed a summary of the results of its company-run stress tests on March 11, 2015. In July 2015, the Company submitted its 2015 semi-annual stress test to the Federal Reserve.

The final rule also requires Advanced Approach banking organizations that have exited from the parallel run, including the Company, to incorporate the Advanced Approach into their capital planning and company-run stress tests beginning with the January 1, 2016 cycle. However, in July 2015, the Federal Reserve issued proposed revisions to its capital plan and stress test rules that would, among other things, indefinitely defer the use of the Advanced Approach, remove the Tier 1 common ratio requirement, and delay the incorporation of the supplementary leverage ratio until the 2017 cycle. In addition, the Federal Reserve has indicated that it is considering whether and, if so, how to incorporate the G-SIB capital surcharge in the CCAR and Dodd-Frank Act stress tests. In October 2014, the Federal Reserve revised its capital planning and stress testing regulations to, among other things, generally limit a large bank holding company s ability to make capital distributions (other than scheduled payments on Additional Tier 1 and Tier 2 capital instruments) if the bank holding company s net capital issuances are less than the amount indicated in its capital plan, and to shift the start and submission dates of the capital plan and stress test cycles beginning with the 2016 cycle.

The Dodd-Frank Act also requires each of the Company s U.S. Bank Subsidiaries to conduct an annual stress test. MSBNA submitted its 2015 annual company-run stress tests to the OCC in January 2015 and MSPBNA submitted its annual company-run stress tests to the OCC in March 2015. MSBNA published a summary of its stress test results on March 11, 2015, and MSPBNA published a summary of its stress test results on June 15, 2015. In June 2014, the OCC issued a proposed rule, among other things, to shift the timing of the annual stress testing cycle that applies to the Company s U.S. Bank Subsidiaries beginning with the 2016 cycle.

Supplementary Leverage Ratio.

Beginning on January 1, 2015, the Company and its U.S. Bank Subsidiaries are required to publicly disclose their U.S. Basel III supplementary leverage ratio, which will become effective as a capital standard on January 1, 2018. By January 1, 2018, the Company must also maintain a Tier 1 supplementary leverage capital buffer of at least 2% in addition to the 3% minimum supplementary leverage ratio (for a total of at least 5%), in order to avoid limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers. In addition, beginning in 2018, the Company s U.S. Bank Subsidiaries must maintain a supplementary leverage ratio of 6% to be considered well-capitalized.

The following table presents the Company s total consolidated assets and consolidated daily average assets under U.S. GAAP, its total supplementary leverage exposure and its supplementary leverage ratio disclosures on a transitional basis under the U.S. Basel III rules:

	At September 30, 2015 (dollars in millions)
Total assets	$ 834,113
Consolidated daily average assets(1)	$ 827,464
Adjustment for derivative exposures(2)	229,158
Adjustment for repo-style transactions(2)	15,443
Adjustment for off-balance sheet exposures(2)	64,630
Other adjustments(3)	(10,742)
Supplementary leverage exposure	$ 1,125,953
Supplementary leverage ratio(4)	5.9%

(1) Amount is computed as the average daily balance of consolidated assets under U.S. GAAP during the calendar quarter.
(2) Amount is computed as the arithmetic mean of the month-end balances over the calendar quarter.
(3) Amount reflects adjustments to Tier 1 capital, including disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.
(4) At September 30, 2015, supplementary leverage ratios calculated using Tier 1 capital and supplementary leverage exposures computed under U.S. Basel III on a transitional basis for the Company s U.S. Bank Subsidiaries were as follows: MSBNA: 7.3%; and MSPBNA: 9.7%.

The supplementary leverage exposure (noted in the above table) represents the Company s consolidated daily average assets under U.S. GAAP as adjusted, among other items, by: (i) the addition of the potential future

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exposure for derivative contracts (including derivatives that are centrally cleared for clients), the gross-up of cash collateral netting where certain qualifying criteria are not met, and the effective notional principal amount of sold credit protection offset by certain qualifying purchased credit protection; (ii) the counterparty credit risk associated with repo-style transactions; (iii) the credit equivalent amount of off-balance sheet exposures, which is computed by applying the relevant credit conversion factors; and (iv) certain amounts deducted or adjusted from Tier 1 capital under U.S. Basel III. The supplementary leverage exposure and supplementary leverage ratio are non-GAAP financial measures that the Company considers to be useful measures for evaluating compliance with new regulatory capital requirements that have not yet become effective.

The Company estimates its pro forma fully phased-in supplementary leverage ratio to be approximately 5.5% at September 30, 2015. This estimate utilizes a fully phased-in U.S. Basel III Tier 1 capital numerator and a denominator of approximately $1.12 trillion. The Company s estimates are subject to risks and uncertainties that may cause actual results to differ materially from estimates based on these regulations. Further, these expectations should not be taken as projections of what the Company s supplementary leverage ratios, earnings, assets or exposures will actually be at future dates. See Risk Factors in Part I, Item 1A of the 2014 Form 10-K for a discussion of risks and uncertainties that may affect the future results of the Company.

Required Capital.

The Company s required capital (Required Capital) estimation is based on the Required Capital framework, an internal capital adequacy measure. This framework is a risk-based and leverage use-of-capital measure, which is compared with the Company s regulatory capital to ensure that the Company maintains an amount of going concern capital after absorbing potential losses from extreme stress events, where applicable, at a point in time. The Company defines the difference between its regulatory capital and aggregate Required Capital as Parent capital. Average Common Equity Tier 1 capital, aggregate Required Capital and Parent capital for the quarter ended September 30, 2015 were approximately $58.8 billion, $38.4 billion and $20.4 billion, respectively. The Company generally holds Parent capital for prospective regulatory requirements, including for example, supplementary leverage ratio and U.S. Basel III transitional deductions and adjustments expected to reduce the Company s capital through 2018. The Company also holds Parent capital for organic growth, acquisitions and other capital needs.

Common Equity Tier 1 capital and common equity attribution to the business segments is based on capital usage calculated by the Required Capital framework as well as each business segment s relative contribution to the Company s total Required Capital. Required Capital is assessed at each business segment and further attributed to product lines. This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk-adjusted basis. The Required Capital framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. The Company will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

The following table presents the Company s business segments and the Parent s average Common Equity Tier 1 capital and average common equity, which were calculated on a monthly basis:

	Three Months Ended September 30,			
	2015		2014	
	Average Common Equity Tier 1 Capital	Average Common Equity	Average Common Equity Tier 1 Capital	Average Common Equity
	(dollars in billions)			
Institutional Securities	$ 32.0	$ 33.8	$ 31.9	$ 32.6
Wealth Management	5.1	11.4	5.2	11.2
Investment Management	1.3	2.1	2.2	3.1
Parent capital	20.4	20.3	19.4	19.3
Total	$ 58.8	$ 67.6	$ 58.7	$ 66.2

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Activities Restrictions under the Volcker Rule.

In December 2013, U.S. regulators issued final regulations to implement the Volcker Rule. The Volcker Rule prohibits banking entities, including the Company and its affiliates, from engaging in certain prohibited proprietary trading activities, as defined in the Volcker Rule, subject to exemptions for underwriting, market making-related activities, risk-mitigating hedging and certain other activities. The Volcker Rule also prohibits certain investments and relationships by banking entities with covered funds, as defined in the Volcker Rule, subject to certain exemptions and exclusions. Banking entities were required to bring all of their activities and investments into conformance with the Volcker Rule by July 21, 2015, subject to certain extensions. In addition, the Volcker Rule requires banking entities to have comprehensive compliance programs reasonably designed to ensure and monitor compliance with the Volcker Rule.

The Volcker Rule also requires that deductions be made from a bank holding company s Tier 1 capital for certain permissible investments in covered funds. Beginning with the third quarter of 2015, the required deductions are reflected in the relevant regulatory capital tiers and ratios.

Resolution and Recovery Planning.

Pursuant to the Dodd-Frank Act, the Company is required to submit to the Federal Reserve and the FDIC an annual resolution plan that describes its strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the Company. The Company submitted its 2015 resolution plan in July 2015. In addition, MSBNA is required to submit to the FDIC an annual resolution plan that describes MSBNA s strategy for a rapid and orderly resolution in the event of a material financial distress or failure of MSBNA. MSBNA submitted its 2015 resolution plan in September 2015. For further information on the Company s resolution and recovery planning, see Business Supervision and Regulation Resolution and Recovery Planning in Part I, Item 1 of the 2014 Form 10-K.

Off-Balance Sheet Arrangements with Unconsolidated Entities.

The Company enters into various arrangements with unconsolidated entities, including variable interest entities, primarily in connection with its Institutional Securities and Investment Management business segments. See Off-Balance Sheet Arrangements with Unconsolidated Entities included in Part II, Item 7 of the 2014 Form 10-K and Note 12 to the condensed consolidated financial statements in Item 1 for further information.

See Note 11 to the condensed consolidated financial statements in Item 1 for information on guarantees.

Commitments.

The Company s commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending, securities financing arrangements, mortgage lending, underwriting commitments and other financing arrangements at September 30, 2015 were approximately $188 billion. See Note 11 to the condensed consolidated financial statements in Item 1 for further information on commitments.

Effects of Inflation and Changes in Foreign Exchange Rates.

To the extent that an increased inflation outlook results in rising interest rates or has negative impacts on the valuation of financial instruments that exceed the impact on the value of the Company s liabilities, it may adversely affect the Company s financial position and profitability. A significant portion of the Company s business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar, therefore, can affect the value of non-U.S. dollar net assets, revenues and expenses. For a further discussion of the effects of inflation and changes in foreign exchange rates on the Company s business and financial results and strategies to mitigate potential exposures see MD&A Liquidity and Capital Resources Effects of Inflation and Changes in Foreign Exchange Rates in Part II, Item 7 of the 2014 Form 10-K.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk as a result of trading, investing and client facilitation activities, principally within the Company s Institutional Securities business segment where the substantial majority of the Company s Value-at-Risk (VaR) for market risk exposures is generated. In addition, the Company incurs trading-related market risk within its Wealth Management business segment. The Company s Investment Management business segment incurs principally Non-trading market risk primarily from capital investments in real estate funds and investments in private equity vehicles. For a further discussion of the Company s Market Risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management in Part II, Item 7A of the 2014 Form 10-K.

VaR.

The Company uses the statistical technique known as VaR as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Company s Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations. For information regarding the Company s VaR methodology, assumptions and limitations, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk VaR Methodology, Assumptions and Limitations in Part II, Item 7A of the 2014 Form 10-K.

The Company utilizes the same VaR model for risk management purposes as well as for regulatory capital calculations. The Company s VaR model has been approved by the Company s regulators for use in regulatory capital calculations.

The portfolio of positions used for the Company s VaR for risk management purposes (Management VaR) differs from that used for regulatory capital requirements (Regulatory VaR), as Management VaR contains certain positions that are excluded from Regulatory VaR. Examples include counterparty Credit Valuation Adjustments (CVA) and related hedges, as well as loans that are carried at fair value and associated hedges.

Table 1 below presents the Management VaR for the Company s Trading portfolio, on a period-end, quarterly average and quarterly high and low basis. To further enhance the transparency of the Company s traded market risk, the Credit Portfolio VaR has been disclosed as a separate category from the Primary Risk Categories. The Credit Portfolio includes counterparty CVA and related hedges, as well as loans that are carried at fair value and associated hedges.

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Trading Risks.

The table below presents the Company s 95%/one-day Management VaR:

Table 1: 95% Management VaR	95%/One-Day VaR for the Quarter Ended September 30, 2015				95%/One-Day VaR for the Quarter Ended June 30, 2015			
Market Risk Category	**Period End**	**Average**	**High**	**Low**	**Period End**	**Average**	**High**	**Low**
	(dollars in millions)							
Interest rate and credit spread	$ 42	$ 37	$ 42	$ 33	$ 34	$ 35	$ 40	$ 28
Equity price	17	18	28	15	18	23	30	17
Foreign exchange rate	12	12	18	7	13	12	16	9
Commodity price	17	17	19	15	16	16	18	13
Less: Diversification benefit(1)(2)	(36)	(34)	N/A	N/A	(35)	(36)	N/A	N/A
Primary Risk Categories	$ 52	$ 50	$ 56	$ 45	$ 46	$ 50	$ 56	$ 44
Credit Portfolio	14	12	14	10	10	12	14	10
Less: Diversification benefit(1)(2)	(13)	(9)	N/A	N/A	(7)	(8)	N/A	N/A
Total Management VaR	$ 53	$ 53	$ 58	$ 48	$ 49	$ 54	$ 61	$ 47

N/A Not Applicable

(1) Diversification benefit equals the difference between the total Management VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.

(2) The high and low VaR values for the total Management VaR and each of the component VaRs might have occurred on different days during the quarter, and therefore, the diversification benefit is not an applicable measure.

The Company s average Total Management VaR for the quarter ended September 30, 2015 was $53 million compared with $54 million for the quarter ended June 30, 2015. This decrease was driven by reduced trading risks offset by higher market volatility.

Distribution of VaR Statistics and Net Revenues for the quarter ended September 30, 2015. One method of evaluating the reasonableness of the Company s VaR model as a measure of the Company s potential volatility of net revenues is to compare VaR with actual trading revenues. Assuming no intraday trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model would be questioned. The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results for the Company, as well as individual business units. For days where losses exceed the VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model s accuracy relative to realized trading results.

The distribution of VaR Statistics and Net Revenues is presented in the histograms below for both the Primary Risk Categories and the Total Trading populations.

Primary Risk Categories. As shown in Table 1, the Company s average 95%/one-day Primary Risk Categories VaR for the quarter ended September 30, 2015 was $50 million. The histogram below presents the distribution of the Company s daily 95%/one-day Primary Risk Categories VaR for the quarter ended September 30, 2015, which was in a range between $45 million and $54 million for approximately 97% of the trading days during the quarter.

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The histogram below shows the distribution for the quarter ended September 30, 2015 of daily net trading revenues, including profits and losses from positions included in VaR for the Company s businesses that comprise the Primary Risk Categories. Daily net trading revenues also include intraday trading activities but exclude certain items not captured in the VaR model, such as fees, commissions and net interest income. Daily net trading revenues differ from the definition of revenues required for Regulatory VaR backtesting, which further excludes intraday trading. During the quarter ended September 30, 2015, the Company s businesses that comprise the Primary Risk Categories experienced net trading losses on 11 days, of which no day was in excess of the 95%/one-day Primary Risk Categories VaR.

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Total Trading Including the Primary Risk Categories and the Credit Portfolio. As shown in Table 1, the Company s average 95%/one-day Total Management VaR, which includes the Primary Risk Categories and the Credit Portfolio, for the quarter ended September 30, 2015 was $53 million. The histogram below presents the distribution of the Company s daily 95%/one-day Total Management VaR for the quarter ended September 30, 2015, which was in a range between $49 million and $57 million for approximately 95% of trading days during the quarter.

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The histogram below shows the distribution for the quarter ended September 30, 2015 of daily net trading revenues, including profits and losses from Primary Risk Categories, Credit Portfolio positions and intraday trading activities, for the Company s Trading businesses. Daily net trading revenues also include intraday trading activities but exclude certain items not captured in the VaR model, such as fees, commissions and net interest income. Daily net trading revenues differ from the definition of revenues required for Regulatory VaR backtesting, which further excludes intraday trading. During the quarter ended September 30, 2015, the Company experienced net trading losses on 13 days, of which no day was in excess of the 95%/one-day Total Management VaR.

Non-trading Risks.

The Company believes that sensitivity analysis is an appropriate representation of the Company s non-trading risks. Reflected below is this analysis covering substantially all of the non-trading risk in the Company s portfolio.

Counterparty Exposure Related to the Company s Own Credit Spread. The credit spread risk sensitivity of the counterparty exposure related to the Company s own credit spread corresponded to an increase in value of approximately $6 million for each 1 basis point widening in the Company s credit spread level at both September 30, 2015 and June 30, 2015.

Funding Liabilities. The credit spread risk sensitivity of the Company s mark-to-market funding liabilities corresponded to an increase in value of approximately $10 million and $11 million for each 1 basis point widening in the Company s credit spread level at September 30, 2015 and June 30, 2015, respectively.

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Interest Rate Risk Sensitivity. The table below presents the estimated impact of selected hypothetical instantaneous upward and downward parallel interest rate shocks on net interest income over the next 12 months for the Company s U.S. Bank Subsidiaries. These shocks are applied to the Company s 12-month forecast for its U.S. Bank Subsidiaries, which incorporates market expectations of interest rates and the Company s forecasted business activity, including its deposit deployment strategy and asset-liability management hedges. Thus, the impacts are incremental to that forecast, and additionally, do not reflect the impact of the repricing of assets and liabilities beyond 12 months. The Company does not manage to any single rate scenario, but rather manages net interest income in its U.S. Bank Subsidiaries to optimize across a range of possible outcomes.

	+200 Basis Points	+100 Basis Points	-100 Basis Points
		(dollars in millions)	
Impact on the Company s U.S. Bank Subsidiaries net interest income:			
At September 30, 2015	$ 132	$ 120	$ (406)
At June 30, 2015	280	121	(391)

Investments. The Company makes investments in both public and private companies. These investments are predominantly equity positions with long investment horizons, the majority of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net income associated with a 10% decline in investment values and related impact on performance fees.

	10% Sensitivity	
Investments	At September 30, 2015	At June 30, 2015
	(dollars in millions)	
Investments related to Investment Management activities:		
Real estate funds	$ 174	$ 166
Private equity and infrastructure funds	131	160
Hedge fund investments	98	103
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	149	141
Other Company investments	226	196

Equity Market Sensitivity. In the Company s Wealth Management and Investment Management business segments, certain fee-based revenue streams are driven by the value of clients equity holdings. The overall level of revenues for these streams also depends on multiple additional factors that include, but are not limited to, the level and duration of the equity market decline, price volatility, the geographic and industry mix of client assets, the rate and magnitude of client investments and redemptions, and the impact of such market decline and price volatility on client behavior. Therefore, overall revenues do not correlate completely with changes in the equity markets.

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. For a further discussion of the Company s credit risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk in Part II, Item 7A of the 2014 Form 10-K. Also, see Notes 7 and 11 to the condensed consolidated financial statements in Item 1 for additional information about the Company s loans and lending commitments, respectively.

Lending Activities.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high net worth individuals. In addition, the Company purchases loans in the secondary market. Loans held for investment and loans held for sale are classified in Loans, and loans held at fair value are classified in Trading assets in the Company s condensed consolidated statements of financial condition. See Notes 3 and 7 to the Company s condensed consolidated financial statements in Item 1 for further information.

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The following tables present the Company s loan portfolio by loan type within its Institutional Securities and Wealth Management business segments at September 30, 2015 and December 31, 2014.

	At September 30, 2015			
	Institutional Securities Corporate Lending(1)	Institutional Securities Other Lending(2)	Wealth Management Lending(3)	Total
	(dollars in millions)			
Corporate loans	$ 7,780	$ 8,136	$ 6,464	$ 22,380
Consumer loans			20,445	20,445
Residential real estate loans			19,630	19,630
Wholesale real estate loans		6,555		6,555
Loans held for investment, net of allowance	7,780	14,691	46,539	69,010
Corporate loans	7,254	1,255		8,509
Residential real estate loans		45	76	121
Wholesale real estate loans		569		569
Loans held for sale	7,254	1,869	76	9,199
Corporate loans	249	6,513		6,762
Residential real estate loans		1,933		1,933
Wholesale real estate loans		2,639		2,639
Loans held at fair value	249	11,085		11,334
Total loans(4)	$ 15,283	$ 27,645	$ 46,615	$ 89,543

	At December 31, 2014			
	Institutional Securities Corporate Lending(1)	Institutional Securities Other Lending(2)	Wealth Management Lending(3)	Total
	(dollars in millions)			
Corporate loans	$ 7,957	$ 6,161	$ 5,423	$ 19,541
Consumer loans			16,574	16,574
Residential real estate loans			15,727	15,727
Wholesale real estate loans		5,277		5,277
Loans held for investment, net of allowance	7,957	11,438	37,724	57,119
Corporate loans	7,801	399		8,200
Residential real estate loans		16	98	114
Wholesale real estate loans		1,144		1,144
Loans held for sale	7,801	1,559	98	9,458
Corporate loans	483	6,610		7,093
Residential real estate loans		1,682		1,682
Wholesale real estate loans		3,187		3,187

Loans held at fair value	483	11,479		11,962
Total loans(4)	$ 16,241	$ 24,476	$ 37,822	$ 78,539

(1) In addition to loans, at September 30, 2015, and December 31, 2014 there were $100.6 billion and $82.0 billion of lending commitments, respectively.
(2) In addition to loans, at September 30, 2015, and December 31, 2014 there were $6.9 billion and $5.2 billion of lending commitments, respectively.
(3) In addition to loans, at September 30, 2015, and December 31, 2014 there were $5.7 billion and $5.0 billion of lending commitments, respectively.
(4) Amounts exclude customer margin loans outstanding of $25.7 billion and $29.0 billion and employee loans outstanding of $4.9 billion and $5.1 billion at September 30, 2015, and December 31, 2014, respectively. See Notes 6 and 7 to the Company s condensed consolidated financial statements in Item 1 for further information.

At September 30, 2015 and December 31, 2014, the allowance for loan losses related to loans that were accounted for as held for investment was $173 million and $149 million, respectively, and the allowance for commitment losses related to lending commitments that were accounted for as held for investment was $161 million and $149 million, respectively. The aggregate allowance for loan and commitment losses for loans and lending commitments, respectively, increased over the nine months ended September 30, 2015 due primarily to the growth in the portfolios, and reflected the high quality of the Company s lending portfolios resulting from strong credit risk management. See Note 7 to the Company s condensed consolidated financial statements in Item 1 for further information.

Institutional Securities Corporate Lending Activities.

For a discussion of the Company s Institutional Securities corporate lending activities, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Institutional Securities Corporate Lending Activities in Part II, Item 7A of the 2014 Form 10-K.

The Company s credit exposure from its corporate lending positions and lending commitments are measured in accordance with the Company s internal risk management standards. Lending commitments represent legally binding obligations to provide funding to clients for all lending transactions. Since commitments associated with these business activities may expire unused or may not be utilized to full capacity, they do not necessarily reflect the actual future cash funding requirements.

The following tables present the Company s Institutional Securities Corporate Lending Commitments and Loans at September 30, 2015 and December 31, 2014.

	At September 30, 2015				
	Years to Maturity				
Credit Rating(1)	Less than 1	1-3	3-5	Over 5	Total(2)
	(dollars in millions)				
AAA	$ 287	$ 24	$ 50	$	$ 361
AA	4,326	3,960	3,513		11,799
A	3,436	6,079	11,485	18	21,018
BBB	6,728	12,947	21,245	3,580	44,500
Investment grade	14,777	23,010	36,293	3,598	77,678
Non-investment grade	3,985	8,761	19,117	6,368	38,231
Total	$ 18,762	$ 31,771	$ 55,410	$ 9,966	$ 115,909

	At December 31, 2014				
	Years to Maturity				
Credit Rating(1)	Less than 1	1-3	3-5	Over 5	Total(2)(3)
	(dollars in millions)				
AAA	$ 275	$ 74	$ 37	$	$ 386
AA	3,760	2,764	4,580		11,104
A	2,135	4,534	12,029	173	18,871
BBB	3,350	9,303	22,424	1,503	36,580
Investment grade	9,520	16,675	39,070	1,676	66,941
Non-investment grade	2,034	7,222	17,755	4,050	31,061
Total	$ 11,554	$ 23,897	$ 56,825	$ 5,726	$ 98,002

(1) Obligor credit ratings are determined by the Company s Credit Risk Management Department.

(2) For syndications led by the Company, lending commitments accepted by the borrower but not yet closed are net of the amounts agreed to by counterparties that will participate in the syndication. For syndications that the Company participates in and does not lead, lending commitments accepted by the borrower

but not yet closed include only the amount that the Company expects it will be allocated from the lead syndicate bank.

(3) Amounts include the fair value adjustment of $0.3 billion related to the Company s lending commitments at December 31, 2014.

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At September 30, 2015 and December 31, 2014, the aggregate amount of investment grade loans was $5.7 billion and $6.3 billion, respectively, and the aggregate amount of non-investment grade loans was $9.6 billion and $9.9 billion, respectively. In connection with the Company s lending activities (which include both loans and lending commitments), the Company had hedges (which included single name, sector and index hedges) with a notional amount of $14.1 billion related to the total corporate lending exposure of $115.9 billion at September 30, 2015 and with a notional amount of $12.9 billion related to the total corporate lending exposure of $98.0 billion at December 31, 2014. At September 30, 2015 and December 31, 2014, there were no significant loans and lending commitments held for investment under non-accrual status within Corporate Lending, as no significant loans or lending commitments were past due or had payments that were in doubt.

Event-Driven Loans and Lending Commitments. Included in the total corporate lending exposure amounts in the table above at September 30, 2015 were event-driven exposures of $30.4 billion composed of loans of $4.2 billion and lending commitments of $26.2 billion. Included in the event-driven exposure at September 30, 2015 were $15.8 billion of loans and lending commitments to non-investment grade borrowers. The maturity profile of these event-driven loans and lending commitments at September 30, 2015 were as follows: 31% will mature in less than 1 year, 19% will mature within 1 to 3 years, 20% will mature within 3 to 5 years and 30% will mature in over 5 years.

Industry Exposure Corporate Lending. The Company also monitors its credit exposure to individual industries for credit exposure arising from corporate loans and lending commitments as discussed below.

The following table presents the Company s Institutional Securities credit exposure from its primary Corporate Lending Commitments and Loans by industry:

Industry(1)	At September 30, 2015	At December 31, 2014
	(dollars in millions)	
Energy	$ 15,922	$ 14,056
Utilities	14,336	11,717
Healthcare	12,388	9,707
Information technology	11,902	7,572
Consumer discretionary	11,289	10,214
Industrials	11,063	9,134
Funds, exchanges and other financial services(2)	9,749	9,277
Consumer staples	7,915	7,320
Materials	6,982	5,259
Real Estate	5,226	4,616
Telecommunications services	4,144	4,335
Insurance	4,087	3,313
Other	906	1,482
Total	$ 115,909	$ 98,002

(1) Industry categories are based on the Global Industry Classification Standard.
(2) Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses, and diversified financial services.

Institutional Securities Other Lending Activities.

In addition to the primary corporate lending activities described above, the Company s Institutional Securities business segment engages in other lending activities. These activities include commercial and residential mortgage lending, asset-backed lending, corporate loans purchased in the secondary market, financing extended to equities and commodities customers, and loans to municipalities. At September 30, 2015 and December 31, 2014, there were no significant loans and lending commitments held for investment under non-accrual status as no significant loans or lending commitments were past due or had payments that were in doubt.

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The following tables present the Company s Institutional Securities business segment s other loans by remaining contract maturity:

	At September 30, 2015(1)				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Corporate loans	$ 5,141	$ 6,111	$ 2,368	$ 2,284	$ 15,904
Residential real estate loans		31		1,947	1,978
Wholesale real estate loans	1,067	4,207	2,054	2,435	9,763
Total	$ 6,208	$ 10,349	$ 4,422	$ 6,666	$ 27,645

	At December 31, 2014(1)				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Corporate loans	$ 4,231	$ 4,826	$ 1,884	$ 2,229	$ 13,170
Residential real estate loans		43		1,655	1,698
Wholesale real estate loans	100	5,060	2,112	2,336	9,608
Total	$ 4,331	$ 9,929	$ 3,996	$ 6,220	$ 24,476

(1) In addition to loans, at September 30, 2015 and December 31, 2014 there were $6.9 billion and $5.2 billion of lending commitments, respectively.

Institutional Securities Lending Exposures Related to the Energy Industry. At September 30, 2015, Institutional Securities loans and lending commitments related to the energy industry were $17.2 billion ($15.9 billion for Corporate Lending and $1.3 billion for Other Lending activities), which were relatively unchanged from June 30, 2015. Approximately two thirds of these energy industry loans and lending commitments were to investment grade counterparties. The energy industry portfolio included $1.5 billion in loans and $2.7 billion in lending commitments to Oil and Gas Exploration and Production (E&P) companies. The E&P loans were principally to non-investment grade counterparties, while the E&P lending commitments were essentially split between investment grade and non-investment grade counterparties. Such loans and lending commitments to non-investment grade counterparties are subject to semi-annual borrowing base reassessments based on the value of the underlying oil and gas reserves pledged as collateral.

Margin Lending. In addition, Institutional Securities other lending activities include margin lending, which allows the client to borrow against the value of qualifying securities. At September 30, 2015 and December 31, 2014, Institutional Securities margin lending of $11.0 billion and $15.3 billion, respectively, were classified within Customer and other receivables in the Company s condensed consolidated statements of financial condition.

Wealth Management Lending Activities.

The principal Wealth Management lending activities include securities-based lending and residential real estate loans. The following tables present the Company s Wealth Management business segment lending activities by remaining contract maturity:

	At September 30, 2015				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Securities-based lending and other loans	$ 24,406	$ 925	$ 895	$ 683	$ 26,909
Residential real estate loans			24	19,682	19,706

Total	$ 24,406	$ 925	$ 919	$ 20,365	$ 46,615

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	At December 31, 2014				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Securities-based lending and other loans	$ 19,408	$ 1,071	$ 750	$ 768	$ 21,997
Residential real estate loans				15,825	15,825
Total	$ 19,408	$ 1,071	$ 750	$ 16,593	$ 37,822

Securities-based lending provided to the Company s retail clients is primarily conducted through the Company s PLA and LAL platforms which had an outstanding loan balance of $23.8 billion and $19.1 billion at September 30, 2015 and December 31, 2014, respectively. These loans allow the client to borrow money against the value of qualifying securities for any purpose other than purchasing securities. For a further discussion on the Company s credit lines against the value of qualifying securities see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Wealth Management Lending Activities in Part II, Item 7A of the 2014 Form 10-K.

Residential real estate loans consist of first and second lien mortgages, including home equity lines of credit (HELOC) loans. The vast majority of mortgage and HELOC loans are held for investment in the Company s Wealth Management business segment s loan portfolio. For a discussion of the Company s residential real estate loan evaluation process see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Wealth Management Lending Activities in Part II, Item 7A of the 2014 Form 10-K.

For the nine months ended September 30, 2015, loans and lending commitments associated with the Company s Wealth Management business segment lending activities increased by approximately 22%, mainly due to growth in PLA, LAL and residential real estate loans. At September 30, 2015 and December 31, 2014, approximately 99.9% of the Company s Wealth Management business segment lending activities held for investment were current; while approximately 0.1% were on non-accrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

The Company s Wealth Management business segment also provides margin lending to clients and had an outstanding balance of $14.7 billion and $13.7 billion at September 30, 2015 and December 31, 2014, respectively, which were classified within Customer and other receivables within the Company s condensed consolidated statements of financial condition.

In addition, the Company s Wealth Management business segment has employee loans that are granted primarily in conjunction with programs established by the Company to recruit and retain certain employees. These loans, recorded in Customer and other receivables in the Company s condensed consolidated statements of financial condition, are full recourse, require periodic payments and have repayment terms ranging from 2 to 12 years. The Company establishes an allowance for loan amounts it does not consider recoverable from terminated employees, which is recorded in Compensation and benefits expense.

Credit Exposure Derivatives.

For a discussion of the Company s credit exposure to derivative contracts, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Credit Exposure Derivatives in Part II, Item 7A of the 2014 Form 10-K.

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The following tables summarize the key characteristics of the Company s credit derivative portfolio by counterparty type at September 30, 2015 and December 31, 2014. The fair values shown are before the application of contractual netting or collateral. For additional credit exposure information on the Company s credit derivative portfolio, see Note 4 to the Company s condensed consolidated financial statements in Item 1.

	At September 30, 2015				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$ 19,095	$ 18,677	$ 418	$ 611,416	$ 561,190
Insurance and other financial institutions	5,587	5,863	(276)	224,157	232,983
Non-financial entities	99	102	(3)	5,918	3,364
Total	$ 24,781	$ 24,642	$ 139	$ 841,491	$ 797,537

	At December 31, 2014				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$ 25,452	$ 25,323	$ 129	$ 712,466	$ 687,155
Insurance and other financial institutions	6,639	6,697	(58)	216,489	217,201
Non-financial entities	91	89	2	5,049	3,706
Total	$ 32,182	$ 32,109	$ 73	$ 934,004	$ 908,062

(1) The Company s CDS are classified in either Level 2 or Level 3 of the fair value hierarchy. Approximately 4% of receivable fair values and 7% of payable fair values represented Level 3 amounts at September 30, 2015 and December 31, 2014, respectively (see Note 3 to the condensed consolidated financial statements in Item 1).

Industry Exposure OTC Derivative Products.

The Company also monitors its credit exposure to individual industries for current exposure arising from the Company s OTC derivative contracts.

The following table shows the Company s OTC derivative products at fair value, net of collateral, by industry:

Industry(1)	At September 30, 2015	At December 31, 2014
	(dollars in millions)	
Utilities	$ 4,101	$ 3,797
Industrials	2,253	2,278
Banks and securities firms	2,164	3,297
Funds, exchanges and other financial services(2)	2,157	2,321
Regional governments	1,367	1,603
Healthcare	1,154	1,365
Not-for-profit organizations	933	905
Special purpose vehicles	853	1,089
Consumer discretionary	759	423
Sovereign governments	670	889

Materials	625	591
Real estate	588	761
Consumer staples	563	650
Insurance	494	455
Energy	411	575
Other	551	1,228
Total(3)	$ 19,643	$ 22,227

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(1) Industry categories are based on the Global Industry Classification Standard.
(2) Amounts include mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses, and diversified financial services.
(3) For further information on derivative instruments and hedging activities, see Note 4 to the Company s condensed consolidated financial statements in Item 1.

Other.

In addition to the activities noted above, there are other credit risks managed by the Company s Credit Risk Management Department and various business areas within the Company s Institutional Securities business segment. The Company participates in securitization activities whereby it extends short-term or long-term funding to clients through loans and lending commitments that are secured by the assets of the borrower and generally provide for over-collateralization, including commercial real estate loans, loans secured by loan pools, commercial company loans, and secured lines of revolving credit. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement or a decline in the underlying collateral value. See Note 12 to the Company s condensed consolidated financial statements in Item 1 for information about the Company s securitization activities. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function. See Note 6 to the Company s condensed consolidated financial statements in Item 1 for additional information about the Company s collateralized transactions.

Country Risk Exposure.

Country risk exposure is the risk that uncertainties arising from the economic, social, security and political conditions within a foreign country (any country other than the U.S.) will adversely affect the ability of the sovereign government and/or obligors within the country to honor their obligations to the Company. The Company actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows the Company to effectively identify, monitor and limit country risk. For a further discussion of the Company s country risk exposure see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Country Risk Exposure in Part II, Item 7A of the 2014 Form 10-K.

The Company s sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures consist of exposures to primarily corporations and financial institutions. The following table shows the Company s ten largest non-U.S. country risk net exposures at September 30, 2015. Index credit derivatives are included in the Company s country risk exposure tables. Each reference entity within an index is allocated to that reference entity s country of risk. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable/payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country that references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure column based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable/payable is reflected in the Net Inventory column based on the country of the underlying reference entity.

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Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Loans	Lending Commitments	Exposure Before Hedges	Hedges(4)	Net Exposure(5)
				(dollars in millions)			
United Kingdom:							
Sovereigns	$ (393)	$ 64	$	$	$ (329)	$ (117)	$ (446)
Non-sovereigns	385	10,787	2,074	8,231	21,477	(1,399)	20,078
Subtotal	$ (8)	$ 10,851	$ 2,074	$ 8,231	$ 21,148	$ (1,516)	$ 19,632
France:							
Sovereigns	$ 1,969	$	$	$	$ 1,969	$	$ 1,969
Non-sovereigns	(113)	2,201	22	2,242	4,352	(1,041)	3,311
Subtotal	$ 1,856	$ 2,201	$ 22	$ 2,242	$ 6,321	$ (1,041)	$ 5,280
Brazil:							
Sovereigns	$ 3,568	$	$	$	$ 3,568	$ (8)	$ 3,560
Non-sovereigns	66	487	1,043	92	1,688	(578)	1,110
Subtotal	$ 3,634	$ 487	$ 1,043	$ 92	$ 5,256	$ (586)	$ 4,670
Germany:							
Sovereigns	$ 439	180			$ 619	$ (1,506)	$ (887)
Non-sovereigns	225	2,616	324	3,786	6,951	(1,867)	5,084
Subtotal	$ 664	$ 2,796	$ 324	$ 3,786	$ 7,570	$ (3,373)	$ 4,197
China:							
Sovereigns	$ 637	$ 221	$	$	$ 858	$ (269)	$ 589
Non-sovereigns	1,714	334	703	290	3,041	(70)	2,971
Subtotal	$ 2,351	$ 555	$ 703	$ 290	$ 3,899	$ (339)	$ 3,560
Canada:							
Sovereigns	$ 117	$ 91	$	$	$ 208	$	$ 208
Non-sovereigns	(36)	1,468	207	1,543	3,182	(180)	3,002
Subtotal	$ 81	$ 1,559	$ 207	$ 1,543	$ 3,390	$ (180)	$ 3,210
Singapore:							
Sovereigns	$ 2,188	$ 384	$	$	$ 2,572	$	$ 2,572
Non-sovereigns	64	291	51	122	528	(32)	496
Subtotal	$ 2,252	$ 675	$ 51	$ 122	$ 3,100	$ (32)	$ 3,068
Australia:							
Sovereigns	$ (25)	$ 40	$	$	$ 15	$	$ 15
Non-sovereigns	412	722	285	949	2,368	(156)	2,212
Subtotal	$ 387	$ 762	$ 285	$ 949	$ 2,383	$ (156)	$ 2,227
Netherlands:							
Sovereigns	$ (59)	$	$	$	$ (59)	$	$ (59)
Non-sovereigns	380	594	173	1,298	2,445	(241)	2,204
Subtotal	$ 321	$ 594	$ 173	$ 1,298	$ 2,386	$ (241)	$ 2,145

Italy:							
Sovereigns	$ 288	$ (21)	$	$	$ 267	$ (54)	$ 213
Non-sovereigns	295	955	10	685	1,945	(173)	1,772
Subtotal	$ 583	$ 934	$ 10	$ 685	$ 2,212	$ (227)	$ 1,985

(1) Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on a notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At September 30, 2015, gross purchased protection, gross written protection and net exposures related to single-name and index credit derivatives for those countries were $(235.6) billion, $231.7 billion and $(3.9) billion, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company s hedges, see Credit Exposure Derivatives in Part II, Item 7A, quantitative and Qualitative Disclosures about Market Risk-Credit Risk in the 2014 Form 10-K.

(2) Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.

(3) At September 30, 2015, the benefit of collateral received against counterparty credit exposure was $11.8 billion in the U.K., with 98% of collateral consisting of cash, U.S. and U.K. government obligations, and $11.7 billion in Germany with 96% of collateral consisting of cash and government obligations of France, Belgium and Germany. The benefit of collateral received against counterparty credit exposure in the other countries totaled approximately $14.2 billion, with collateral primarily consisting of cash, Germany, France and U.S. government obligations. These amounts do not include collateral received on secured financing transactions.

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(4) Amounts represent CDS hedges (purchased and sold) on net counterparty exposure and lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

(5) In addition, at September 30, 2015, the Company had exposure to these countries for overnight deposits with banks of approximately $6.6 billion.

Country Risk Exposures Related to Brazil and China.

At September 30, 2015, the Company s country risk exposures in Brazil included net exposures of $4,670 million (shown in the above table). The Company s sovereign net exposures in Brazil were principally in the form of local-currency government bonds held onshore to support client activity. The $1,110 million (shown in the above table) of exposures to non-sovereigns were diversified across both names and sectors. The Company s net exposure in Brazil increased from June 30, 2015, reflecting changes in local currency bond positions resulting primarily from changes in client activity.

At September 30, 2015, the Company s country risk exposures in China included net exposures of $3,560 million (shown in the above table) and overnight deposits with international banks of $1,411 million. The $2,971 million (shown in the above table) of exposures to non-sovereigns were diversified across both names and sectors and were primarily concentrated in high quality positions with negligible direct exposure to onshore equities. The Company s net exposure in China declined from June 30, 2015, reflecting a combination of repayments and return of collateral, a reduction of positions in government and quasi-government bonds, and increased hedging.

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Item 4. Controls and Procedures.

Under the supervision and with the participation of the Company s management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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FINANCIAL DATA SUPPLEMENT (Unaudited)

Average Balances and Interest Rates and Net Interest Income

	Three Months Ended September 30, 2015		
	Average Daily Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 99,151	$ 468	1.9 %
Non-U.S.	107,577	100	0.4
Investment securities:			
U.S.	62,745	211	1.4
Loans:			
U.S.	77,686	552	2.9
Non-U.S.	239	8	13.6
Interest bearing deposits with banks:			
U.S.	29,252	20	0.3
Non-U.S.	922	9	4.0
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	173,622	(119)	(0.3)
Non-U.S.	85,061	20	0.1
Customer receivables and Other(3):			
U.S.	47,779	325	2.8
Non-U.S.	28,811	(143)	(2.0)
Total	$ 712,845	$ 1,451	0.8 %
Non-interest earning assets	114,619		
Total assets	$ 827,464		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 141,726	$ 16	%
Non-U.S.	2,962	1	0.1
Short-term borrowings(4):			
U.S.	1,300	2	0.6
Non-U.S.	1,078	5	1.9
Long-term borrowings(4):			
U.S.	152,617	900	2.4
Non-U.S.	7,343	8	0.4
Trading liabilities(1):			
U.S.	30,693		
Non-U.S.	55,641		
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	45,559	116	1.0
Non-U.S.	33,032	138	1.7
Customer payables and Other(6):			
U.S.	112,001	(291)	(1.1)
Non-U.S.	68,251	(206)	(1.2)

Total	$ 652,203	$	689	0.4
Non-interest bearing liabilities and equity	175,261			
Total liabilities and equity	$ 827,464			
Net interest income and net interest rate spread		$	762	0.4 %

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FINANCIAL DATA SUPPLEMENT (Unaudited) (Continued)

Average Balances and Interest Rates and Net Interest Income

	Three Months Ended September 30, 2014		
	Average Weekly Balance	Interest (dollars in millions)	Annualized Average Rate
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 100,135	$ 400	1.6%
Non-U.S.	110,972	108	0.4
Investment securities:			
U.S.	65,590	162	1.0
Loans:			
U.S.	55,920	461	3.3
Non-U.S.	347	13	15.2
Interest bearing deposits with banks:			
U.S.	28,809	15	0.2
Non-U.S.	4,963	7	0.6
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	182,641	(156)	(0.3)
Non-U.S.	77,355	53	0.3
Customer receivables and Other(3):			
U.S.	67,981	161	1.0
Non-U.S.	16,373	160	4.0
Total	$ 711,086	$ 1,384	0.8%
Non-interest earning assets	109,704		
Total assets	$ 820,790		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 120,046	$ 12	%
Non-U.S.	239		
Short-term borrowings(4):			
U.S.	949	1	0.4
Non-U.S.	637		
Long-term borrowings(4):			
U.S.	142,782	848	2.4
Non-U.S.	8,687	17	0.8
Trading liabilities(1):			
U.S.	29,067		
Non-U.S.	52,565		
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	80,841	139	0.7
Non-U.S.	47,394	162	1.4
Customer payables and Other(6):			
U.S.	120,627	(384)	(1.3)
Non-U.S.	51,767	32	0.3

Total	$ 655,601	$ 827	0.5
Non-interest bearing liabilities and equity	165,189		
Total liabilities and equity	$ 820,790		
Net interest income and net interest rate spread		$ 557	0.3%

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FINANCIAL DATA SUPPLEMENT (Unaudited) (Continued)

Average Balances and Interest Rates and Net Interest Income

	Nine Months Ended September 30, 2015		
	Average Daily Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 98,668	$ 1,414	1.9%
Non-U.S.	113,321	293	0.3
Investment securities:			
U.S.	68,794	650	1.3
Loans:			
U.S.	72,306	1,547	2.9
Non-U.S.	253	26	13.7
Interest bearing deposits with banks:			
U.S.	22,450	51	0.3
Non-U.S.	1,000	23	3.1
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	170,895	(454)	(0.4)
Non-U.S.	83,061	50	0.1
Customer receivables and Other(3):			
U.S.	55,778	596	1.4
Non-U.S.	27,217	125	0.6
Total	$ 713,743	$ 4,321	0.8%
Non-interest earning assets	123,981		
Total assets	$ 837,724		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 136,128	$ 48	%
Non-U.S.	2,092	3	0.2
Short-term borrowings(4):			
U.S.	1,195	3	0.3
Non-U.S.	1,127	13	1.5
Long-term borrowings(4):			
U.S.	150,227	2,723	2.4
Non-U.S.	7,686	26	0.5
Trading liabilities(1):			
U.S.	29,551		
Non-U.S.	54,176		
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	58,306	341	0.8
Non-U.S.	34,941	456	1.7
Customer payables and Other(6):			
U.S.	115,150	(1,154)	(1.3)
Non-U.S.	63,739	(194)	(0.4)

Total	$ 654,318	$ 2,265	0.5
Non-interest bearing liabilities and equity	183,406		
Total liabilities and equity	$ 837,724		
Net interest income and net interest rate spread		$ 2,056	0.3%

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FINANCIAL DATA SUPPLEMENT (Unaudited) (Continued)

Average Balances and Interest Rates and Net Interest Income

	Nine Months Ended September 30, 2014		
	Average Weekly Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 104,250	$ 1,193	1.5%
Non-U.S.	114,636	327	0.4
Investment securities:			
U.S.	61,009	449	1.0
Loans:			
U.S.	50,023	1,180	3.2
Non-U.S.	377	40	14.2
Interest bearing deposits with banks:			
U.S.	35,563	55	0.2
Non-U.S.	6,170	26	0.6
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	175,724	(374)	(0.3)
Non-U.S.	84,468	135	0.2
Customer receivables and Other(3):			
U.S.	68,790	491	1.0
Non-U.S.	16,094	455	3.8
Total	$ 717,104	$ 3,977	0.7%
Non-interest earning assets	112,374		
Total assets	$ 829,478		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 117,133	$ 42	%
Non-U.S.	209	2	1.3
Short-term borrowings(4):			
U.S.	927	1	0.1
Non-U.S.	620	2	0.4
Long-term borrowings(4):			
U.S.	143,220	2,686	2.5
Non-U.S.	8,371	44	0.7
Trading liabilities(1):			
U.S.	26,535		
Non-U.S.	54,838		
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	89,557	416	0.6
Non-U.S.	58,035	514	1.2
Customer payables and Other(6):			
U.S.	116,708	(992)	(1.1)
Non-U.S.	48,449	130	0.4
Total	$ 664,602	$ 2,845	0.6
Non-interest bearing liabilities and equity	164,876		

Total liabilities and equity	$ 829,478		
Net interest income and net interest rate spread		$ 1,132	0.1%

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.
(2) Includes fees paid on Securities borrowed.
(3) Includes interest from Customer receivables and Other interest earning assets.
(4) The Company also issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities, which are recorded within Trading revenues (see Note 3).
(5) Includes fees received on Securities loaned.
(6) Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers short positions.

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FINANCIAL DATA SUPPLEMENT (Unaudited) (Continued)

Rate/Volume Analysis

The following tables set forth an analysis of the effect on net interest income of volume and rate changes:

	Three Months Ended September 30, 2015 versus Three Months Ended September 30, 2014		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
		(dollars in millions)	
Interest earning assets			
Trading Assets:			
U.S.	$ (4)	$ 72	$ 68
Non-U.S.	(3)	(5)	(8)
Investment securities:			
U.S.	(7)	56	49
Loans:			
U.S.	179	(88)	91
Non-U.S.	(4)	(1)	(5)
Interest bearing deposits with banks:			
U.S.		5	5
Non-U.S.	(6)	8	2
Securities purchased under agreements to resell and Securities borrowed:			
U.S.	8	29	37
Non-U.S.	5	(38)	(33)
Customer receivables and Other:			
U.S.	(48)	212	164
Non-U.S.	122	(425)	(303)
Change in interest income	$ 242	$ (175)	$ 67
Interest bearing liabilities			
Deposits:			
U.S.	$ 2	$ 2	$ 4
Non-U.S.		1	1
Short-term borrowings:			
U.S.		1	1
Non-U.S.		5	5
Long-term borrowings:			
U.S.	58	(6)	52
Non-U.S.	(3)	(6)	(9)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	(61)	38	(23)
Non-U.S.	(49)	25	(24)
Customer payables and Other:			
U.S.	27	66	93
Non-U.S.	10	(248)	(238)
Change in interest expense	$ (16)	$ (122)	$ (138)
Change in net interest income	$ 258	$ (53)	$ 205

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FINANCIAL DATA SUPPLEMENT (Unaudited) (Continued)

Rate/Volume Analysis

	Nine Months Ended September 30, 2015 versus Nine Months Ended September 30, 2014		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Trading assets:			
U.S.	$ (64)	$ 285	$ 221
Non-U.S.	(4)	(30)	(34)
Investment securities:			
U.S.	57	144	201
Loans:			
U.S.	526	(159)	367
Non-U.S.	(13)	(1)	(14)
Interest bearing deposits with banks:			
U.S.	(20)	16	(4)
Non-U.S.	(22)	19	(3)
Securities purchased under agreements to resell and Securities borrowed:			
U.S.	10	(90)	(80)
Non-U.S.	(2)	(83)	(85)
Customer receivables and Other:			
U.S.	(93)	198	105
Non-U.S.	314	(644)	(330)
Change in interest income	$ 689	$ (345)	$ 344
Interest bearing liabilities			
Deposits:			
U.S.	$ 7	$ (1)	$ 6
Non-U.S.	18	(17)	1
Short-term borrowings:			
U.S.		2	2
Non-U.S.	2	9	11
Long-term borrowings:			
U.S.	131	(94)	37
Non-U.S.	(4)	(14)	(18)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	(145)	70	(75)
Non-U.S.	(205)	147	(58)
Customer payables and Other:			
U.S.	13	(175)	(162)
Non-U.S.	41	(365)	(324)
Change in interest expense	$ (142)	$ (438)	$ (580)
Change in net interest income	$ 831	$ 93	$ 924

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Part II Other Information.

Item 1. Legal Proceedings.

The following new matters and developments have occurred since previously reporting certain matters in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (the Form 10-K) and the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (the First Quarter Form 10-Q) and June 30, 2015 (the Second Quarter Form 10-Q). See also the disclosures set forth under Legal Proceedings in Part I, Item 3 of the Form 10-K and Part II, Item 1 of the First Quarter Form 10-Q and Second Quarter Form 10-Q.

Residential Mortgage and Credit Crisis Related Matters.

Other Litigation.

On August 12, 2015, the plaintiff in *Bank Hapoalim B.M. v. Morgan Stanley et al.* filed a stipulation of discontinuance with prejudice.

On August 17, 2015, the parties in *Commerzbank AG London Branch v. UBS AG et al.* filed a stipulation of discontinuance with prejudice.

On August 19, 2015, the Company filed a Notice of Appeal of the court s decision in *HSH Nordbank AG et al. v. Morgan Stanley et al.* on the Company s motion to dismiss the complaint, and on August 20, 2015, the plaintiffs filed a Notice of Cross-Appeal. On August 25, 2015, the plaintiffs filed a motion for leave to amend their complaint.

On October 2, 2015, the defendants in *Federal Deposit Insurance Corporation as Receiver for Colonial Bank v. Credit Suisse Securities (USA) LLC et al.* filed a motion for summary judgment with respect to the plaintiffs claims in their entirety.

On October 20, 2015, the court in *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc.* granted in part and denied in part the Company s motion to dismiss.

Matters Related to the CDS Market.

On September 30, 2015, the Company reached an agreement with plaintiffs in *In Re: Credit Default Swaps Antitrust Litigation* to settle the litigation. The settlement is subject to court approval.

Currency Related Matters.

Class Action Litigation.

On September 11, 2015, several foreign exchange dealers (including the Company and an affiliate) were named as defendants in a purported class action filed in the Ontario Superior Court of Justice styled *Christopher Staines v. Royal Bank of Canada, et al.* The plaintiff has made allegations similar to those in the *In Re Foreign Exchange Benchmark Rates Antitrust Litigation* and seeks C$1 billion as well as C$50 million in punitive damages. On September 16, 2015, a parallel proceeding was initiated in Quebec Superior Court styled *Christine Beland v. Royal Bank of Canada, et al.* based on similar allegations and seeking C$100 million as well as C$50 million in punitive damages.

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Wealth Management Related Matters.

The Company is currently defending itself in an ongoing arbitration styled *Lynnda L. Speer, as Personal Representative of the Estate of Roy M. Speer, et al. v. Morgan Stanley Smith Barney LLC, et al.*, which is pending before a Financial Industry Regulatory Authority arbitration panel in the state of Florida. Plaintiffs assert claims for excessive trading, unauthorized use of discretion, undue influence, negligence and negligent supervision, constructive fraud, abuse of fiduciary duty, unjust enrichment and violations of several Florida statutes in connection with brokerage accounts owned by a former high-net worth wealth management client who is now deceased. Plaintiffs are seeking disgorgement, compensatory damages, statutory damages, punitive damages and treble damages under various factual and legal theories.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the quarterly period ended September 30, 2015.

Issuer Purchases of Equity Securities

(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs(C)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1				
(July 1, 2015 July 31, 2015)				
Share Repurchase Program(A)	2,273,878	$ 39.74	2,273,878	$ 2,470
Employee Transactions(B)	778,069	$ 39.93		
Month #2				
(August 1, 2015 August 31, 2015)				
Share Repurchase Program(A)	9,585,532	$ 36.75	9,585,532	$ 2,117
Employee Transactions(B)	64,255	$ 37.56		
Month #3				
(September 1, 2015 September 30, 2015)				
Share Repurchase Program(A)	5,393,125	$ 33.81	5,393,125	$ 1,935
Employee Transactions(B)	110,128	$ 33.44		
Total				
Share Repurchase Program(A)	17,252,535	$ 36.23	17,252,535	$ 1,935
Employee Transactions(B)	952,452	$ 39.02		

(A) The Company s Board of Directors has authorized the repurchase of the Company s outstanding stock under a share repurchase program (the Share Repurchase Program). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date. Share repurchases by the Company are subject to regulatory approval. In March 2015, the Company received no objection from the Federal Reserve to repurchase up to $3.1 billion of the Company s outstanding common stock that began in the second quarter of 2015 through the end of the second quarter of 2016 under the Company s 2015 capital plan. During the quarter ended September 30, 2015, the Company repurchased approximately $625 million of the Company s outstanding common stock as part of its Share Repurchase Program. For further information, see Liquidity and Capital Resources Capital Management in Part I, Item 2.

(B) Includes: (1) shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee and director stock options (granted under employee and director stock compensation plans) who exercised options; (2) shares withheld, delivered or attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares; (3) shares withheld, delivered and attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units; and (4) shares withheld, delivered and attested (under the terms of grants under employee and director stock compensation plans) to offset the cash payment for fractional shares. The Company s employee and director stock compensation plans provide that the value of the shares withheld, delivered or attested, shall be valued using the fair market value of the Company s common stock on the date the relevant transaction occurs, using a valuation methodology established by the Company.

(C) Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Company deems appropriate and may be suspended at any time.

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Item 5. Other Information.

On November 3, 2015, the Compensation, Management Development and Succession Committee of the Board of Directors (the Committee) approved an amendment of the Company s Directors and Officers allowance program for members of the Company s Operating Committee who are identified as Code Staff, including the Company s President of Institutional Securities. The amendment, which was made at the direction of the Company s regulators in the U.K. and will have effect as of November 3, 2015, provides for payment of a Code Staff employee s annual Director and Officer allowance on a pro-rated basis for the period during the year for which he or she performed his or her Director and Officer role should his or her employment terminate or role cease for any reason.

Item 6. Exhibits.

An exhibit index has been filed as part of this Report on Page E-1.

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SIGNATURE

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

MORGAN STANLEY

(Registrant)

By: /s/ JONATHAN PRUZAN
Jonathan Pruzan

Executive Vice President and

Chief Financial Officer

By: /s/ PAUL C. WIRTH
Paul C. Wirth

Deputy Chief Financial Officer

Date: November 3, 2015

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EXHIBIT INDEX

MORGAN STANLEY

Quarter Ended September 30, 2015

Exhibit No.	Description
3.1	Amended and Restated By-Laws of Morgan Stanley, amended as of October 29, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K, filed on October 29, 2015).
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Earnings to Fixed Charges and Preferred Stock Dividends.
15	Letter of awareness from Deloitte & Touche LLP, dated November 3, 2015, concerning unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Financial Condition September 30, 2015 and December 31, 2014, (ii) the Condensed Consolidated Statements of Income Three Months and Nine Months Ended September 30, 2015 and 2014, (iii) the Condensed Consolidated Statements of Comprehensive Income Three Months and Nine Months Ended September 30, 2015 and 2014, (iv) the Condensed Consolidated Statements of Cash Flows Nine Months Ended September 30, 2015 and 2014, (v) the Condensed Consolidated Statements of Changes in Total Equity Nine Months Ended September 30, 2015 and 2014, and (vi) Notes to Condensed Consolidated Financial Statements (unaudited).