

CubeSmart
Form 10-Q
August 08, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

b

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2014.

or

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:

001-32324 (CubeSmart)

000-54662 (CubeSmart, L.P.)

CUBESMART

CUBESMART, L.P.

(Exact Name of Registrant as Specified in its Charter)

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Maryland (CubeSmart)
Delaware (CubeSmart, L.P.)

20-1024732
34-1837021

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

5 Old Lancaster Road
Malvern, Pennsylvania
(Address of Principal Executive Offices)

19355
(Zip Code)

(610) 535-5000

(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.

CubeSmart Yes No
CubeSmart, L.P. Yes No

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

CubeSmart Yes No
CubeSmart, L.P. Yes No

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

CubeSmart:
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
CubeSmart, L.P.:
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

CubeSmart Yes No
CubeSmart, L.P. Yes No

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

Class	Outstanding at August 5, 2014
Common shares, \$0.01 par value per share, of CubeSmart	148,591,159

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2014 of CubeSmart (the Parent Company or CubeSmart) and CubeSmart, L.P. (the Operating Partnership). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the Company. In addition, terms such as we , us , or our used in this report may refer to the Company, the Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2014, owned a 98.5% interest in the Operating Partnership. The remaining 1.5% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of facilities to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership's day-to-day operations and management.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management teams of the Parent Company and the Operating Partnership are identical, and their constituents are officers of both the Parent Company and of the Operating Partnership.

There are few differences between the Parent Company and the Operating Partnership, which are reflected in the note disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as a consolidated enterprise. The Parent Company is a REIT, whose only material asset is its ownership of the partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and, directly or indirectly, holds the ownership interests in the Company's real estate ventures. The Operating Partnership conducts the operations of the Company's business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, by the Operating Partnership's direct or indirect incurrence of indebtedness or through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The substantive difference between the Parent Company's and the Operating Partnership's filings is the fact that the Parent Company is a REIT with public equity, while the Operating Partnership is a partnership with no publicly traded equity. In the financial statements, this difference is primarily reflected in the equity (or capital for Operating Partnership) section of the consolidated balance sheets and in the consolidated statements of equity (or capital). Apart from the different equity treatment, the consolidated financial statements of the Parent Company and the Operating Partnership are nearly identical.

The Company believes that combining the quarterly reports on Form 10-Q of the Parent Company and the Operating Partnership into a single report will:

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;

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- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

In order to highlight the differences between the Parent Company and the Operating Partnership, the separate sections in this report for the Parent Company and the Operating Partnership specifically refer to the Parent Company and the Operating Partnership. In the sections that combine disclosures of the Parent Company and the Operating Partnership, this report refers to such disclosures as those of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and real estate ventures and holds assets and debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through the Operating Partnership.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Parent Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company's operations on a consolidated basis and how management operates the Company.

This report also includes separate Item 4 - Controls and Procedures sections, signature pages and Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of the Parent Company and the Chief Executive Officer and the Chief Financial Officer of the Operating Partnership have made the requisite certifications and that the Parent Company and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

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Filing Format

This combined Form 10-Q is being filed separately by CubeSmart and CubeSmart, L.P.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, or this Report, together with other statements and information publicly disseminated by the Parent Company and the Operating Partnership, contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements include statements concerning the Company's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as believes, expects, estimates, may, will, should, anticipates, or in negative of such terms or other comparable terminology, or by discussions of strategy. Such statements are based on assumptions and expectations that may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Although we believe the expectations reflected in these forward-looking statements are based on reasonable assumptions, future events and actual results, performance, transactions or achievements, financial and otherwise, may differ materially from the results, performance, transactions or achievements expressed or implied by the forward-looking statements. As a result, you should not rely on or construe any forward-looking statements in this Report, or which management may make orally or in writing from time to time, as predictions of future events or as guarantees of future performance. We caution you not to place undue reliance on forward-looking statements, which speak only as of the date of this Report or as of the dates otherwise indicated in the statements. All of our forward-looking statements, including those in this Report, are qualified in their entirety by this statement.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this Report. Any forward-looking statements should be considered in light of the risks and uncertainties referred to in Item 1A. Risk Factors in the Parent Company's and the Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2013 and in our other filings with the Securities and Exchange Commission (SEC). These risks include, but are not limited to, the following:

- national and local economic, business, real estate and other market conditions;
- the competitive environment in which we operate, including our ability to maintain or raise occupancy and rental rates;
- the execution of our business plan;
- the availability of external sources of capital;
- financing risks, including the risk of over-leverage and the corresponding risk of default on our mortgage and other debt and potential inability to refinance existing indebtedness;
- increases in interest rates and operating costs;

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- counterparty non-performance related to the use of derivative financial instruments;
- our ability to maintain our Parent Company's qualification as a real estate investment trust (REIT) for federal income tax purposes;
- acquisition and development risks;
- increases in taxes, fees, and assessments from state and local jurisdictions;
- changes in real estate and zoning laws or regulations;
- risks related to natural disasters;
- potential environmental and other liabilities;
- other factors affecting the real estate industry generally or the self-storage industry in particular; and
- other risks identified in the Parent Company's and the Operating Partnership's Annual Report on Form 10-K, as amended, and, from time to time, in other reports that we file with the SEC or in other documents that we publicly disseminate.

Given these uncertainties and the other risks identified elsewhere in this Report, we caution readers not to place undue reliance on forward-looking statements. We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise except as may be required by securities laws.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CUBESMART AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands, except share data)****(unaudited)**

	June 30, 2014	December 31, 2013
ASSETS		
Storage facilities	\$ 2,776,835	\$ 2,553,706
Less: Accumulated depreciation	(442,044)	(398,536)
Storage facilities, net (including VIE assets of \$34,314 and \$34,559, respectively)	2,334,791	2,155,170
Cash and cash equivalents	10,789	3,176
Restricted cash	3,587	4,025
Loan procurement costs, net of amortization	11,543	12,687
Investment in real estate venture, at equity	101,013	156,310
Other assets, net	41,400	27,256
Total assets	\$ 2,503,123	\$ 2,358,624
LIABILITIES AND EQUITY		
Unsecured senior notes	\$ 500,000	\$ 500,000
Revolving credit facility	56,900	38,600
Unsecured term loans	400,000	400,000
Mortgage loans and notes payable	224,232	200,218
Accounts payable, accrued expenses and other liabilities	57,847	57,599
Distributions payable	20,960	19,955
Deferred revenue	14,632	12,394
Security deposits	392	376
Total liabilities	1,274,963	1,229,142
Noncontrolling interests in the Operating Partnership	41,430	36,275
Commitments and contingencies		
Equity		
7.75% Series A Preferred shares \$.01 par value, 3,220,000 shares authorized, 3,100,000 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	31	31
Common shares \$.01 par value, 200,000,000 shares authorized, 147,078,392 and 139,328,366 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	1,471	1,393
Additional paid in capital	1,669,327	1,542,703
Accumulated other comprehensive loss	(10,650)	(11,014)
Accumulated deficit	(474,944)	(440,837)
Total CubeSmart shareholders' equity	1,185,235	1,092,276

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Noncontrolling interests in subsidiaries		1,495		931
Total equity		1,186,730		1,093,207
Total liabilities and equity	\$	2,503,123	\$	2,358,624

See accompanying notes to the unaudited consolidated financial statements.

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(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES				
Rental income	\$ 81,071	\$ 68,739	\$ 156,785	\$ 134,991
Other property related income	9,799	8,333	19,946	15,592
Property management fee income	1,467	1,217	2,873	2,362
Total revenues	92,337	78,289	179,604	152,945
OPERATING EXPENSES				
Property operating expenses	32,080	28,469	64,370	57,629
Depreciation and amortization	30,487	28,393	58,602	57,376
General and administrative	7,059	7,515	13,628	15,128
Total operating expenses	69,626	64,377	136,600	130,133
OPERATING INCOME	22,711	13,912	43,004	22,812
OTHER INCOME (EXPENSE)				
Interest:				
Interest expense on loans	(12,027)	(10,588)	(23,898)	(20,860)
Loan procurement amortization expense	(543)	(497)	(1,084)	(973)
Acquisition related costs	(721)	(1,648)	(2,400)	(1,763)
Equity in losses of real estate venture	(1,729)	-	(3,098)	-
Gain from sale of real estate	475	-	475	-
Other	(173)	(187)	(766)	(260)
Total other expense	(14,718)	(12,920)	(30,771)	(23,856)
INCOME (LOSS) FROM CONTINUING OPERATIONS	7,993	992	12,233	(1,044)
DISCONTINUED OPERATIONS				
Income from discontinued operations	-	1,576	336	2,956
Gain from disposition of discontinued operations	-	-	-	228
Total discontinued operations	-	1,576	336	3,184
NET INCOME	7,993	2,568	12,569	2,140
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership	(95)	(18)	(144)	17
Noncontrolling interests in subsidiaries	(12)	-	(9)	1
NET INCOME ATTRIBUTABLE TO THE COMPANY	7,886	2,550	12,416	2,158
Distribution to preferred shareholders	(1,502)	(1,502)	(3,004)	(3,004)
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY'S COMMON SHAREHOLDERS	\$ 6,384	\$ 1,048	\$ 9,412	\$ (846)

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Basic earnings (loss) per share from continuing operations attributable to common shareholders	\$	0.04	\$	0.00	\$	0.06	\$	(0.03)
Basic earnings per share from discontinued operations attributable to common shareholders	\$	0.00	\$	0.01	\$	0.01	\$	0.02
Basic earnings (loss) per share attributable to common shareholders	\$	0.04	\$	0.01	\$	0.07	\$	(0.01)
Diluted earnings (loss) per share from continuing operations attributable to common shareholders	\$	0.04	\$	0.00	\$	0.06	\$	(0.03)
Diluted earnings per share from discontinued operations attributable to common shareholders	\$	0.00	\$	0.01	\$	0.01	\$	0.02
Diluted earnings (loss) per share attributable to common shareholders	\$	0.04	\$	0.01	\$	0.07	\$	(0.01)
Weighted-average basic shares outstanding		144,679		133,677		142,461		133,316
Weighted-average diluted shares outstanding		146,999		133,677		144,691		133,316

AMOUNTS ATTRIBUTABLE TO THE COMPANY'S COMMON SHAREHOLDERS:

Income (loss) from continuing operations	\$	6,384	\$	(501)	\$	9,081	\$	(3,976)
Total discontinued operations		-		1,549		331		3,130
Net income (loss)	\$	6,384	\$	1,048	\$	9,412	\$	(846)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUBESMART AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
NET INCOME	\$ 7,993	\$ 2,568	\$ 12,569	\$ 2,140
Other comprehensive (loss) income:				
Unrealized (losses) gains on interest rate swap	(2,247)	5,595	(3,231)	5,286
Reclassification of realized losses on interest rate swaps	1,601	1,554	3,177	3,085
Unrealized gain (loss) on foreign currency translation	354	25	428	(231)
OTHER COMPREHENSIVE (LOSS) INCOME	(292)	7,174	374	8,140
COMPREHENSIVE INCOME	7,701	9,742	12,943	10,280
Comprehensive income attributable to noncontrolling interests in the Operating Partnership	(88)	(140)	(147)	(123)
Comprehensive (income) loss attributable to noncontrolling interests in subsidiaries	(17)	(7)	(16)	3
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	\$ 7,596	\$ 9,595	\$ 12,780	\$ 10,160

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

(unaudited)

	Common Shares		Preferred Shares		Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity	Noncontrolling Interests in the Operating Partnership
	Number	Amount	Number	Amount							
Balance at December 31, 2013	139,328	\$ 1,393	3,100	\$ 31	\$ 1,542,703	\$ (11,014)	\$ (440,837)	\$ 1,092,276	\$ 931	\$ 1,093,207	\$ 36,275
Contributions from noncontrolling interests in subsidiaries									548	548	
Issuance of common shares	7,211	73			126,046			126,119		126,119	
Issuance of restricted shares	416	4						4		4	
Conversion from units to shares	14				234			234		234	(234)
Exercise of stock options	109	1			966			967		967	
Amortization of restricted shares					(1,050)			(1,050)		(1,050)	
Share compensation expense					428			428		428	
Adjustment for noncontrolling interests in the Operating Partnership							(5,830)	(5,830)		(5,830)	5,830
Net income							12,416	12,416	9	12,425	144
Other comprehensive (loss) gain:											
Unrealized losses on interest rate swaps						(53)		(53)		(53)	(1)
Unrealized gain on foreign currency translation						417		417	7	424	4
Preferred share distributions							(3,004)	(3,004)		(3,004)	
Common share distributions							(37,689)	(37,689)		(37,689)	(588)
Balance at June 30, 2014	147,078	\$ 1,471	3,100	\$ 31	\$ 1,669,327	\$ (10,650)	\$ (474,944)	\$ 1,185,235	\$ 1,495	\$ 1,186,730	\$ 41,430

Common Shares