Extra Space Storage Inc.
Form 10-Q
August 10, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________.

Commission File Number: 001-32269

EXTRA SPACE STORAGE INC.

(Exact name of registrant as specified in its charter)

Maryland	**20-1076777**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

2795 East Cottonwood Parkway, Suite 400

Salt Lake City, Utah 84121

(Address of principal executive offices)

Registrant s telephone number, including area code: (801) 365-4600

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 ¨

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 ¨

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 ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, as of July 31, 2015, was 122,847,937.

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EXTRA SPACE STORAGE INC.

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STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information presented in this report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include statements concerning our 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 intends, of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management s examination of historical operating trends and estimates of future earnings, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management s expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

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 referenced in Part II. Item 1A. Risk Factors below and in Part I. Item 1A. Risk Factors included in our most recent Annual Report on Form 10-K. Such factors include, but are not limited to:

- adverse changes in general economic conditions, the real estate industry and the markets in which we operate;
- failure to close pending acquisitions, including the proposed acquisition of SmartStop Self Storage, Inc., on expected terms, or at all;
- the effect of competition from new and existing stores or other storage alternatives, which could cause rents and occupancy rates to decline;
- difficulties in our ability to evaluate, finance, complete and integrate acquisitions and developments successfully and to lease up those stores, which could adversely affect our profitability;
- potential liability for uninsured losses and environmental contamination;
- the impact of the regulatory environment as well as national, state and local laws and regulations including, without limitation, those governing real estate investment trusts (REITs), tenant reinsurance and other aspects of our business, which could adversely affect our results;

disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;

increased interest rates and operating costs;

reductions in asset valuations and related impairment charges;

the failure of our joint venture partners to fulfill their obligations to us or their pursuit of actions that are inconsistent with our objectives;

the failure to maintain our REIT status for federal income tax purposes;

economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan; and

difficulties in our ability to attract and retain qualified personnel and management members.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Extra Space Storage Inc.

Condensed Consolidated Balance Sheets

(amounts in thousands, except share data)

	June 30, 2015 (Unaudited)	December 31, 2014
Assets:		
Real estate assets, net	$ 4,452,046	$ 4,135,696
Investments in unconsolidated real estate ventures	84,744	85,711
Cash and cash equivalents	175,893	47,663
Restricted cash	25,424	25,245
Receivables from related parties and affiliated real estate joint ventures	2,071	11,778
Other assets, net	93,572	96,014
Total assets	$ 4,833,750	$ 4,402,107
Liabilities, Noncontrolling Interests and Equity:		
Notes payable	$ 1,928,552	$ 1,872,067
Premium on notes payable	1,599	3,281
Exchangeable senior notes	250,000	250,000
Discount on exchangeable senior notes	(11,285)	(13,054)
Notes payable to trusts	119,590	119,590
Lines of credit		138,000
Accounts payable and accrued expenses	69,378	65,521
Other liabilities	52,638	54,719
Total liabilities	2,410,472	2,490,124
Commitments and contingencies		
Noncontrolling Interests and Equity:		
Extra Space Storage Inc. stockholders equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding		
Common stock, $0.01 par value, 500,000,000 shares authorized, 122,835,005 and 116,360,239 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	1,228	1,163
Additional paid-in capital	2,416,894	1,995,484
Accumulated other comprehensive loss	(1,819)	(1,484)

Accumulated deficit		(272,130)		(257,738)
Total Extra Space Storage Inc. stockholders equity		2,144,173		1,737,425
Noncontrolling interest represented by Preferred Operating Partnership units, net of $120,230 notes receivable		81,020		81,152
Noncontrolling interests in Operating Partnership		197,912		92,422
Other noncontrolling interests		173		984
Total noncontrolling interests and equity		2,423,278		1,911,983
Total liabilities, noncontrolling interests and equity	$	4,833,750	$	4,402,107

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.

Condensed Consolidated Statements of Operations

(amounts in thousands, except share data)

(unaudited)

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
Revenues:				
Property rental	$ 161,024	$ 138,778	$ 309,918	$ 270,779
Tenant reinsurance	17,340	14,508	33,850	27,971
Management fees and other income	7,496	7,438	15,246	14,561
Total revenues	185,860	160,724	359,014	313,311
Expenses:				
Property operations	48,209	42,294	95,453	85,776
Tenant reinsurance	3,283	2,636	6,211	5,203
Acquisition related costs	4,554	1,393	5,423	3,449
General and administrative	16,655	15,469	32,904	31,178
Depreciation and amortization	31,552	28,271	61,980	56,646
Total expenses	104,253	90,063	201,971	182,252
Income from operations	81,607	70,661	157,043	131,059
Gain (loss) on earnout from prior acquisitions	400	(7,785)	400	(7,785)
Interest expense	(22,811)	(20,658)	(44,242)	(40,256)
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	(696)	(663)	(1,393)	(1,325)
Interest income	428	712	1,284	981
Interest income on note receivable from Preferred Operating Partnership unit holder	1,212	1,212	2,425	2,425
Income before equity in earnings of unconsolidated real estate ventures and income tax expense	60,140	43,479	115,517	85,099
Equity in earnings of unconsolidated real estate ventures	3,001	2,604	5,651	5,023
		3,438	2,857	3,438

Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners interests								
Income tax expense		(2,185)		(3,513)		(4,433)		(6,343)
Net income		60,956		46,008		119,592		87,217
Net income allocated to Preferred Operating Partnership noncontrolling interests		(3,007)		(2,812)		(5,933)		(5,304)
Net income allocated to Operating Partnership and other noncontrolling interests		(2,610)		(1,531)		(4,578)		(2,908)
Net income attributable to common stockholders	$	55,339	$	41,665	$	109,081	$	79,005
Earnings per common share								
Basic	$	0.47	$	0.36	$	0.93	$	0.68
Diluted	$	0.47	$	0.36	$	0.92	$	0.68
Weighted average number of shares								
Basic		116,861,678		115,653,489		116,491,710		115,546,341
Diluted		124,475,890		121,254,222		123,477,241		121,161,292
Cash dividends paid per common share	$	0.59	$	0.47	$	1.06	$	0.87

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.

Condensed Consolidated Statements of Comprehensive Income

(amounts in thousands)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$ 60,956	$ 46,008	$ 119,592	$ 87,217
Other comprehensive income (loss):				
Change in fair value of interest rate swaps	6,305	(5,701)	(288)	(8,448)
Total comprehensive income	67,261	40,307	119,304	78,769
Less: comprehensive income attributable to noncontrolling interests	5,941	4,097	10,558	7,847
Comprehensive income attributable to common stockholders	$ 61,320	$ 36,210	$ 108,746	$ 70,922

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.

Condensed Consolidated Statement of Noncontrolling Interests and Equity

(amounts in thousands, except share data)

(unaudited)

	Noncontrolling Interests Preferred Operating Partnership						Extra Space Storage Inc. Stockholders Equity					
	Series A	Series B	Series C	Series D	Operating Partnership	Other	Shares	Par Value	Additional Paid-in Captial	Accumulated Other Comprehensive Income	Accumulated Deficit	Nor
31,	$ 14,809	$ 41,903	$ 10,730	$ 13,710	$ 92,422	$ 984	116,360,239	$ 1,163	$ 1,995,484	$ (1,484)	$ (257,738)	$
ck												
							50,634	1	1,101			
							106,675	1				
							(14,043)					
ck, ng							6,325,000	63	416,580			
on ted ed									2,795			
est l e						(822)			(446)			
					106,522							

of												
ck					(138)		6,500		138			
	3,343	1,257	990	343	4,567	11					109,081	
ive												
s)	(3)				50					(335)		
rom												
ock												
									1,242			
s to												
y												
ng												
	(3,472)	(1,257)	(990)	(343)	(5,511)							
aid												
06												
											(123,473)	
15	$ 14,677	$ 41,903	$ 10,730	$ 13,710	$ 197,912	$ 173	122,835,005	$ 1,228	$ 2,416,894	$ (1,819)	$ (272,130)	$

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.

Condensed Consolidated Statements of Cash Flows

(amounts in thousands)

(unaudited)

	For the Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$ 119,592	$ 87,217
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,980	56,646
Amortization of deferred financing costs	3,328	3,236
Loss (gain) on earnout related to prior acquisitions	(400)	7,785
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	1,393	1,325
Non-cash interest expense related to amortization of premium on notes payable	(1,682)	(1,585)
Compensation expense related to stock-based awards	2,795	2,799
Gain on sale of real estate assets and purchase of joint venture partners interests	(2,857)	(3,438)
Distributions from unconsolidated real estate ventures in excess of earnings	3,459	3,427
Changes in operating assets and liabilities:		
Receivables from related parties and affiliated real estate joint ventures	(1,302)	(791)
Other assets	(2,961)	3,773
Accounts payable and accrued expenses	3,857	4,938
Other liabilities	(3,915)	2,427
Net cash provided by operating activities	183,287	167,759
Cash flows from investing activities:		
Acquisition of real estate assets	(240,892)	(296,920)
Development and redevelopment of real estate assets	(9,926)	(5,958)
Proceeds from sale of real estate assets	800	
Change in restricted cash	(179)	800
Purchase/issuance of notes receivable		(9,028)
Purchase of equipment and fixtures	(2,592)	(2,336)
Net cash used in investing activities	(252,789)	(313,442)
Cash flows from financing activities:		
Proceeds from the sale of common stock, net of offering costs	416,643	
Proceeds from notes payable and lines of credit	892,140	421,957
Principal payments on notes payable and lines of credit	(973,656)	(238,283)

Deferred financing costs		(3,451)		(3,217)
Net proceeds from exercise of stock options		1,102		2,551
Dividends paid on common stock		(123,473)		(100,874)
Distributions to noncontrolling interests		(11,573)		(9,229)
Net cash provided by financing activities		197,732		72,905
Net increase (decrease) in cash and cash equivalents		128,230		(72,778)
Cash and cash equivalents, beginning of the period		47,663		126,723
Cash and cash equivalents, end of the period	$	175,893	$	53,945

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.

Condensed Consolidated Statements of Cash Flows

(amounts in thousands)

(unaudited)

	For the Six Months Ended June 30, 2015	2014
Supplemental schedule of cash flow information		
Interest paid	$ 40,984	$ 33,859
Income taxes paid	1,431	3,050
Supplemental schedule of noncash investing and financing activities:		
Redemption of Operating Partnership units held by noncontrolling interests for common stock:		
Noncontrolling interests in Operating Partnership	$ (138)	$
Common stock and paid-in capital	138	
Tax effect from vesting of restricted stock grants and option exercises		
Other assets	$ (1,242)	$ (2,679)
Paid-in capital	1,242	2,679
Acquisitions of real estate assets		
Real estate assets, net	$ 122,132	$ 55,308
Notes payable assumed		(33,190)
Operating Partnership units issued	(106,522)	(22,118)
Receivables from related parties and affiliated real estate joint ventures	(15,610)	

See accompanying notes to unaudited condensed consolidated financial statements.

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EXTRA SPACE STORAGE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Amounts in thousands, except store and share data, unless otherwise stated

1. ORGANIZATION

Extra Space Storage Inc. (the Company) is a fully-integrated, self-administered and self-managed real estate investment trust (REIT), formed as a Maryland corporation on April 30, 2004, to own, operate, manage, acquire, develop and redevelop professionally managed self-storage properties (stores) located throughout the United States. The Company continues the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977. The Company s interests in its stores is held through its operating partnership, Extra Space Storage LP (the Operating Partnership), which was formed on May 5, 2004. The Company s primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT (UPREIT). The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To the extent the Company continues to qualify as a REIT, it will not be subject to tax, with certain limited exceptions, on the taxable income that is distributed to its stockholders.

The Company invests in stores by acquiring wholly-owned stores or by acquiring an equity interest in real estate entities. At June 30, 2015, the Company had direct and indirect equity interests in 866 stores. In addition, the Company managed 281 stores for third parties, bringing the total number of stores which it owns and/or manages to 1,147. These stores are located in 35 states, Washington, D.C. and Puerto Rico.

The Company operates in three distinct segments: (1) rental operations; (2) tenant reinsurance; and (3) property management, acquisition and development. The rental operations activities include rental operations of stores in which we have an ownership interest. No single tenant accounts for more than 5.0% of rental income. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in the Company s stores. The Company s property management, acquisition and development activities include managing, acquiring, developing and selling stores.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Company are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information, and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they may not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015, are not necessarily indicative of results that may be expected for the year ending December 31, 2015. The condensed consolidated balance sheet as of December 31, 2014 has been derived from the Company s audited financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission.

Reclassifications

Certain amounts in the Company s 2014 consolidated financial statements and supporting note disclosures have been reclassified to conform to the current period presentation. Such reclassifications did not impact previously reported net income or accumulated deficit.

Recently Issued Accounting Standards

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* . Under this guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. The guidance also requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The Company adopted this guidance effective January 1, 2015. The Company has not previously had discontinued operations and as such, does not expect this guidance to have a significant impact on its consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. ASU 2014-09 outlines a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. ASU 2014-09 is effective for reporting periods beginning after December 15, 2016, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. In July 2015, the FASB approved a one-year deferral of the effective date of the standard. The new standard will now become effective for annual and interim periods beginning after December 15, 2017 with early adoption on the original effective date permitted. The Company has not yet selected a transition method. Management is currently assessing the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis.* This guidance is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. ASU 2015-02 amends the criteria for determining if a service provider possesses a variable interest in a VIE, and eliminates the presumption that a general partner should consolidate a limited partnership. The Company does not expect the adoption of this standard to materially impact its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs,* which requires debt issuance costs related to a recognized debt liability to be presented as a direct deduction from the carrying amount of that debt liability. The new guidance will only impact financial statement presentation. The guidance is effective in the first quarter of 2016 and allows for early adoption. The Company does not expect the adoption of this standard to materially impact its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40) Customers Accounting for Fees Paid in a Cloud Computing Arrangement,* which provides guidance regarding the accounting for fees paid by a customer in cloud computing arrangements. If a cloud computing arrangement includes a software license, the payment of fees should be accounted for in the same manner as the acquisition of other software licenses. If there is no software license, the fees should be accounted for as a service contract. The guidance is effective in fiscal years beginning after December 15, 2015 and early adoption is permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company is still evaluating the impact of adopting this guidance.

3. FAIR VALUE DISCLOSURES

Derivative Financial Instruments

Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. In conjunction with the Financial Accounting Standards Board s fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of June 30, 2015, the Company had assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were classified in Level 2 of the fair value hierarchy.

The table below presents the Company s assets and liabilities measured at fair value on a recurring basis as of June 30, 2015, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair Value Measurements at Reporting Date Using		
Description	**June 30, 2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Other assets - Cash Flow Hedge Swap Agreements	$ 3,540	$	$ 3,540	$
Other liabilities - Cash Flow Hedge Swap Agreements	$ (3,778)	$	$ (3,778)	$

There were no transfers of assets and liabilities between Level 1 and Level 2 during the six months ended June 30, 2015. The Company did not have any significant assets or liabilities that are re-measured on a recurring basis using significant unobservable inputs as of June 30, 2015 or December 31, 2014.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Long-lived assets held for use are evaluated for impairment when events or circumstances indicate there may be impairment. The Company reviews each store at least annually to determine if any such events or circumstances have occurred or exist. The Company focuses on stores where occupancy and/or rental income have decreased by a significant amount. For these stores, the Company determines whether the decrease is temporary or permanent, and whether the store will likely recover the lost occupancy and/or revenue in the short term. In addition, the Company carefully reviews stores in the lease-up stage and compares actual operating results to original projections.

When the Company determines that an event that may indicate impairment has occurred, the Company compares the carrying value of the related long-lived assets to the undiscounted future net operating cash flows attributable to the assets. An impairment loss is recorded if the net carrying value of the assets exceeds the undiscounted future net operating cash flows attributable to the assets. The impairment loss recognized equals the excess of net carrying value over the related fair value of the assets.

When real estate assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the fair value of the assets, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified as held for sale is less than the net carrying value of the assets, a valuation allowance is established. The operations of assets held for sale or sold during the period are presented as part of normal operations for all periods presented.

The Company assesses whether there are any indicators that the value of the Company s investments in unconsolidated real estate ventures may be impaired annually and when events or circumstances indicate that there may be impairment. An investment is impaired if management s estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment.

In connection with the Company s acquisition of stores, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values, which are estimated using significant unobservable inputs. The value of the tangible assets, consisting of land and buildings, is determined as if vacant. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values based on the avoided cost to replace the current leases. The Company measures the value of tenant relationships based on the rent lost due to the amount of time required to replace existing customers, which is based on the Company s historical experience with turnover in its stores. Debt assumed as part of an acquisition is recorded at fair value based on current interest rates compared to contractual rates. Acquisition-related transaction costs are expensed as incurred.

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Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable-rate notes payable, lines of credit and other liabilities reflected in the condensed consolidated balance sheets at June 30, 2015 and December 31, 2014 approximate fair value.

The fair values of the Company s notes receivable from Preferred Operating Partnership unit holders were based on the discounted estimated future cash flows of the notes (categorized within Level 3 of the fair value hierarchy); the discount rate used approximated the current market rate for loans with similar maturities and credit quality. The fair values of the Company s fixed-rate notes payable and notes payable to trusts were estimated using the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximated current market rates for loans, or groups of loans, with similar maturities and credit quality. The fair value of the Company s exchangeable senior notes was estimated using an average market price for similar securities obtained from a third party.

The fair values of the Company s fixed-rate assets and liabilities were as follows for the periods indicated:

	June 30, 2015		**December 31, 2014**	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes receivable from Preferred Operating Partnership unit holders	$ 126,407	$ 120,230	$ 126,380	$ 120,230
Fixed rate notes payable and notes payable to trusts	$ 1,296,658	$ 1,311,763	$ 1,320,370	$ 1,283,893
Exchangeable senior notes	$ 300,625	$ 250,000	$ 276,095	$ 250,000

4. EARNINGS PER COMMON SHARE

Basic earnings per common share is computed using the two-class method by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. All outstanding unvested restricted stock awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common stockholders; accordingly, they are considered participating securities that are included in the two-class method. Diluted earnings per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the weighted average number of basic shares and the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued, and is calculated using either the two-class, treasury stock or as if-converted method, whichever is most dilutive. Potential common shares are securities (such as options, convertible debt, Series A Participating Redeemable Preferred Units (Series A Units), Series B Redeemable Preferred Units (Series B Units), Series C Convertible Redeemable Preferred Units (Series C Units), Series D Redeemable Preferred Units (Series D Units) and common Operating Partnership units (OP Units)) that do not have a current right to participate in earnings of the Company but could do so in the future by virtue of their option, redemption or conversion right.

In computing the dilutive effect of convertible securities, net income is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per common share, only potential common shares that are dilutive (those that reduce earnings per common share) are included. For the three months ended June 30, 2015 and 2014, options to purchase approximately 44,207 and 33,059 shares of common stock, respectively, and for the six months ended June 30, 2015 and 2014, options to purchase 32,193 and 25,068 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

The following table presents the number of Preferred Operating Partnership units, and the potential common shares, that were excluded from the computation of earnings per share as their effect would have been anti-dilutive, assuming full conversion.

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	For the Three Months Ended June 30, 2015		For the Three Months Ended June 30, 2014	
	Number of Units	Equivalent Shares (if converted)	Number of Units	Equivalent Shares (if converted)
Series B Units	1,676,087	618,026	1,668,760	809,292
Series C Units	704,016	437,154	600,656	490,545
Series D Units	548,390	202,209		
	2,928,493	1,257,389	2,269,416	1,299,837

	For the Six Months Ended June 30, 2015		For the Six Months Ended June 30, 2014	
	Number of Units	Equivalent Shares (if converted)	Number of Units	Equivalent Shares (if converted)
Series B Units	1,676,087	628,124	1,506,644	768,853
Series C Units	704,016	444,297	504,858	433,854
Series D Units	548,390	205,513		
	2,928,493	1,277,934	2,011,502	1,202,707

The Operating Partnership had $250,000 of its 2.375% Exchangeable Senior Notes due 2033 (the Notes) issued and outstanding as of June 30, 2015. The Notes could potentially have a dilutive impact on the Company s earnings per share calculations. The Notes are exchangeable by holders into shares of the Company s common stock under certain circumstances per the terms of the indenture governing the Notes. The exchange price of the Notes was $55.26 per share as of June 30, 2015, and could change over time as described in the indenture. The Company has irrevocably agreed to pay only cash for the accreted principal amount of the Notes relative to its exchange obligations, but retained the right to satisfy the exchange obligation in excess of the accreted principal amount in cash and/or common stock.

Though the Company has retained that right, Accounting Standards Codification (ASC) 260, *Earnings per Share,* requires an assumption that shares would be used to pay the exchange obligation in excess of the accreted principal amount, and requires that those shares be included in the Company s calculation of weighted average common shares outstanding for the diluted earnings per share computation. For the three and six months ended June 30, 2015, 836,630 shares related to the Notes were included in the computation for diluted earnings per share. For the three and six months ended June 30, 2014, no shares related to the Notes were included in the computation for diluted earnings per share as the exchange price exceeded the per share price of the Company s common stock during this period.

For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series A Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the positive intent and ability to settle at least $115,000 of the instrument in cash (or net settle a portion of the Series A Units against the related outstanding note receivable), only the amount of the instrument in excess of $115,000 is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by ASC 260-10-45-46.

For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series B Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the intent and ability to settle the redemption in shares, the Company divided the total value of the Series B Units outstanding as of June 30, 2015 of $41,903 by the closing price of the Company s common stock as of June 30, 2015 of $65.22 per share.

For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series C Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the intent and ability to settle the redemption in shares, the Company divided the total value of the Series C Units outstanding as of June 30, 2015 of $29,639 by the closing price of the Company s common stock as of June 30, 2015 of $65.22 per share.

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For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series D Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the intent and ability to settle the redemption in shares, the Company divided the total value of the Series D Units outstanding as of June 30, 2015 of $13,710 by the closing price of the Company s common stock as of June 30, 2015 of $65.22 per share.

The computation of earnings per common share was as follows for the periods presented:

	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014
Net income attributable to common stockholders	$ 55,339	$ 41,665	$ 109,081	$ 79,005
Earnings and dividends allocated to participating securities	(140)	(125)	(259)	(242)
Earnings for basic computations	55,199	41,540	108,822	78,763
Income allocated to noncontrolling interest - Preferred Operating Partnership (Series A Units) and Operating Partnership	4,276	3,315	7,911	6,443
Fixed component of income allocated to noncontrolling interest - Preferred Operating Partnership (Series A Units)	(1,271)	(1,437)	(2,545)	(2,875)
Net income for diluted computations	$ 58,204	$ 43,418	$ 114,188	$ 82,331
Weighted average common shares outstanding:				
Average number of common shares outstanding - basic	116,861,678	115,653,489	116,491,710	115,546,341
Series A Units	875,480	989,980	875,480	989,980
OP Units	5,642,737	4,334,118	5,007,835	4,334,118
Unvested restricted stock awards included for treasury stock method				
Shares related to exchangeable senior notes and dilutive stock options	1,095,995	276,635	1,102,216	290,853
Average number of common shares outstanding - diluted	124,475,890	121,254,222	123,477,241	121,161,292
Earnings per common share				
Basic	$ 0.47	$ 0.36	$ 0.93	$ 0.68
Diluted	$ 0.47	$ 0.36	$ 0.92	$ 0.68

5. STORE ACQUISITIONS

The following table summarizes the Company s acquisitions of operating stores for the six months ended June 30, 2015, and does not include purchases of raw land or improvements made to existing assets:

				Consideration Paid						Acquisition Da	
Number of Stores	Date of Acquisition	Total	Cash Paid	Non-cash gain	Notes Receivable	Previous equity interest	Net Liabilities/ (Assets) Assumed	Value of OP Units Issued	Number of OP Units Issued	Land	Building
1	6/19/2015	$ 6,987	$ 6,926	$	$	$	$ 61	$		$ 1,408	$ 5,461
1	6/18/2015	17,657	12,677				207	4,773	71,054		17,220
1	6/17/2015	4,953	412		4,601		(60)			534	4,241
1	6/8/2015	10,046	9,970				76			964	9,085
1	5/13/2015	12,512	12,515				(3)			1,625	10,875
1	5/7/2015	6,498	6,458				40			2,087	4,295
1	5/5/2015	11,007	10,976				31			4,050	6,867
1	4/24/2015	6,500	6,451				49			370	6,014
22	4/15/2015	178,252	75,681				822	101,749	1,504,277	24,087	151,465
1	4/14/2015	8,650	8,580				70			619	7,861
1	3/30/2015	12,699	1,700	1,629	11,009	(1,264)	(375)			1,025	11,479
2	3/30/2015	13,165	13,143				22			1,763	11,229
1	3/17/2015	5,073	5,065				8			118	4,797
1	2/24/2015	13,570	13,519				51			1,511	11,861
3	1/13/2015	41,904	41,806				98			12,080	29,489
39		**$ 349,473**	**$ 225,879**	**$ 1,629**	**$ 15,610**	**$ (1,264)**	**$ 1,097**	**$ 106,522**	**1,575,331**	**$ 52,241**	**$ 292,239**

(1) This column represents costs paid at closing. The amounts shown exclude other acquisition costs paid before or after the closing date.

(2) This represents the acquisition of a joint venture partners interest in Extra Space of Sacramento One LLC (Sacramento One), an existing joint venture, for $1,700 in cash. The result of the acquisition is that the Company owns 100% of Sacramento One, which owned one store located in California. Prior to the acquisition date, the Company accounted for its interest in Sacramento One as an equity-method investment, and the Company also held mortgage notes receivable from Sacramento One totalling $11,009, including related interest. The total acquisition date fair value of the Company s previous equity interest was approximately $365 and is included in consideration transfered. The Company recognized a non-cash gain of $1,629 as a result of remeasuring the fair value of its equity interest held prior to the acquisition. The store is consolidated subsequent to the acquisition as the Company owns 100% of the store.

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6. VARIABLE INTERESTS

The Operating Partnership has three wholly-owned unconsolidated subsidiaries (Trust, Trust II and Trust III, together, the Trusts) that have issued trust preferred securities to third parties and common securities to the Operating Partnership. The proceeds from the sale of the preferred and common securities were loaned in the form of notes to the Operating Partnership. The Trusts are VIEs because the holders of the equity investment at risk (the trust preferred securities) do not have the power to direct the activities of the entities that most significantly affect the entities economic performance because of their lack of voting or similar rights. Because the Operating Partnership s investment in the Trusts common securities was financed directly by the Trusts as a result of its loan of the proceeds to the Operating Partnership, that investment is not considered an equity investment at risk. The Operating Partnership s investment in the Trusts is not a variable interest because equity interests are variable interests only to the extent that the investment is considered to be at risk, and therefore the Operating Partnership cannot be the primary beneficiary of the Trusts. Since the Company is not the primary beneficiary of the Trusts, they have not been consolidated. A debt obligation has been recorded in the form of notes for the proceeds as discussed above, which are owed to the Trusts. The Company has also included its investment in the Trusts common securities in other assets on the condensed consolidated balance sheets.

The Company has not provided financing or other support during the periods presented to the Trusts that it was not previously contractually obligated to provide. The Company s maximum exposure to loss as a result of its involvement with the Trusts is equal to the total amount of the notes discussed above less the amounts of the Company s investments in the Trusts common securities. The net amount is the notes payable that the Trusts owe to third parties for their investments in the Trusts preferred securities.

Following is a tabular comparison of the liabilities the Company has recorded as a result of its involvement with the Trusts to the maximum exposure to loss the Company is subject to as a result of such involvement as of June 30, 2015:

	Notes payable to Trusts	Investment Balance	Maximum exposure to loss	Difference
Trust	$ 36,083	$ 1,083	$ 35,000	$
Trust II	42,269	1,269	41,000	
Trust III	41,238	1,238	40,000	
	$ 119,590	$ 3,590	$ 116,000	$

The Company had no consolidated VIEs during the six months ended June 30, 2015.

7. DERIVATIVES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and by using derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposure that arises from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing and duration of the Company s known or expected cash receipts and its known or expected cash payments principally related to the Company s investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (OCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. A portion of these changes is excluded from accumulated other comprehensive income as it is allocated to noncontrolling interests. During the three and six months ended June 30, 2015 and 2014, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

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The Company held 22 derivative financial instruments which had a total combined notional amount of $945,602 as of June 30, 2015.

Fair Values of Derivative Instruments

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the condensed consolidated balance sheets:

	Asset (Liability) Derivatives	
	June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:	Fair Value	
Other assets	$ 3,540	$ 3,583
Other liabilities	$ (3,778)	$ (3,533)

Effect of Derivative Instruments

The tables below present the effect of the Company s derivative financial instruments on the condensed consolidated statements of operations for the periods presented. No tax effect has been presented as the derivative instruments are held by the Company:

Type	Classification of Income (Expense)	For the Three Months Ended June 30, 2015	2014
Swap Agreements	Interest expense	$ (2,636)	$ (2,317)

Type	Classification of Income (Expense)	For the Six Months Ended June 30, 2015	2014
Swap Agreements	Interest expense	$ (4,933)	$ (4,610)

Type	Gain (loss) recognized in OCI June 30, 2015	2014	Location of amounts reclassified from OCI into income	Gain (loss) reclassifed from OCI For the Six Months Ended June 30, 2015	2014
Swap Agreements	$ (5,458)	$ (12,924)	Interest expense	$ (4,933)	$ (4,610)

Credit-risk-related Contingent Features

The Company has agreements with some of its derivative counterparties that contain provisions pursuant to which the Company could be declared in default of its derivative obligations if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender.

The Company also has an agreement with some of its derivative counterparties that incorporates the loan covenant provisions of the Company s indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with the loan covenant provisions would result in the Company being in default on any derivative instrument obligations covered by the agreement.

As of June 30, 2015, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions as of June 30, 2015, it could have been required to settle its obligations under the agreements at their termination value of $4,132 including accrued interest.

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8. EXCHANGEABLE SENIOR NOTES

On June 21, 2013, the Operating Partnership issued $250,000 of its 2.375% Exchangeable Senior Notes due 2033 at a 1.5% discount, or $3,750. Costs incurred to issue the Notes were approximately $1,672. These costs are being amortized as an adjustment to interest expense over five years, which represents the estimated term based on the first available redemption date, and are included in other assets in the condensed consolidated balance sheets. The Notes are general unsecured senior obligations of the Operating Partnership and are fully guaranteed by the Company. Interest is payable on January 1 and July 1 of each year beginning January 1, 2014, until the maturity date of July 1, 2033. The Notes bear interest at 2.375% per annum and contain an exchange settlement feature, which provides that the Notes may, under certain circumstances, be exchangeable for cash (for the principal amount of the Notes) and, with respect to any excess exchange value, for cash, shares of the Company s common stock, or a combination of cash and shares of the Company s common stock, at the Company s option. The exchange rate of the Notes as of June 30, 2015 was approximately 18.10 shares of the Company s common stock per $1,000 principal amount of the Notes.

The Operating Partnership may redeem the Notes at any time to preserve the Company s status as a REIT. In addition, on or after July 5, 2018, the Operating Partnership may redeem the Notes for cash, in whole or in part, at 100% of the principal amount plus accrued and unpaid interest, upon at least 30 days but not more than 60 days prior written notice to the holders of the Notes. The holders of the Notes have the right to require the Operating Partnership to repurchase the Notes for cash, in whole or in part, on July 1 of the years 2018, 2023 and 2028, and upon the occurrence of certain designated events, in each case for a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest. Certain events are considered Events of Default, as defined in the indenture governing the Notes, which may result in the accelerated maturity of the Notes.

GAAP requires entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s economic interest cost. The Company therefore accounts for the liability and equity components of the Notes separately. The equity component is included in paid-in capital in stockholders equity in the condensed consolidated balance sheets, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component. The discount is being amortized as interest expense over the remaining period of the debt through its first redemption date, July 1, 2018. The effective interest rate on the liability component is 4.0%.

Information about the carrying amount of the equity component, the principal amount of the liability component, its unamortized discount and its net carrying amount was as follows for the periods indicated:

	June 30, 2015	December 31, 2014
Carrying amount of equity component	$ 14,496	$ 14,496
Principal amount of liability component	$ 250,000	$ 250,000
Unamortized discount - equity component	(9,055)	(10,448)
Unamortized cash discount	(2,230)	(2,606)
Net carrying amount of liability component	$ 238,715	$ 236,946

The amount of interest cost recognized relating to the contractual interest rate and the amortization of the discount on the liability component of the Notes were as follows for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Contractual interest	$ 1,484	$ 1,484	$ 2,968	$ 2,968
Amortization of discount	696	663	1,393	1,325
Total interest expense recognized	$ 2,180	$ 2,147	$ 4,361	$ 4,293

9. STOCKHOLDERS EQUITY

On June 22, 2015, the Company issued and sold 6,325,000 shares of its common stock in a public offering at a price of $68.15 per share. The Company received gross proceeds of $431,049. The underwriting discount and transaction costs were $14,406, resulting in net proceeds of $416,643.

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10. NONCONTROLLING INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS

Classification of Noncontrolling Interests

GAAP requires a company to present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section, but separate from the company s equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. If noncontrolling interests are determined to be redeemable, they are to be carried at their redemption value as of the balance sheet date and reported as temporary equity.

The Company has evaluated the terms of the Operating Partnership s preferred units and classifies the noncontrolling interest represented by such preferred units as stockholders equity in the accompanying condensed consolidated balance sheets. The Company will periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling interest as permanent equity in the condensed consolidated balance sheets. Any noncontrolling interests that fail to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (1) the carrying amount and (2) the redemption value as of the end of the period in which the determination is made.

Series A Participating Redeemable Preferred Units

On June 15, 2007, the Operating Partnership entered into a Contribution Agreement with various limited partnerships affiliated with AAAAA Rent-A-Space to acquire ten stores in exchange for 989,980 Series A Units of the Operating Partnership. The stores are located in California and Hawaii.

On June 25, 2007, the Operating Partnership loaned the holders of the Series A Units $100,000. The note receivable bears interest at 4.85% per annum. During 2013, a loan amendment was signed extending the maturity date to September 1, 2020. The loan is secured by the borrower s Series A Units. The holders of the Series A Units could redeem up to 114,500 Series A Units prior to the maturity date of the loan. If any redemption in excess of 114,500 Series A Units occurs prior to the maturity date, the holder of the Series A Units is required to repay the loan as of the date of that redemption.

The partnership agreement of the Operating Partnership (as amended, the Partnership Agreement) provides for the designation and issuance of the Series A Units. The Series A Units will have priority over all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

Under the Partnership Agreement, Series A Units in the amount of $115,000 bear a fixed priority return of 5% and have a fixed liquidation value of $115,000. The remaining balance participates in distributions with, and has a liquidation value equal to, that of the OP Units. The Series A Units are redeemable at the option of the holder, which redemption obligation may be satisfied, at the Company s option, in cash or shares of its common stock.

On October 3, 2014, the holders of the Series A Units redeemed 114,500 Series A Units for $4,794 in cash and 280,331 shares of common stock. No additional redemption of Series A Units can be made without repayment of the loan. Subsequent to this redemption, the fixed priority return is calculated using the current liquidation value of $101,699. The Series A Units are shown on the balance sheet net of the $100,000 loan because the borrower under the loan receivable is also the holder of the Series A Units.

Series B Redeemable Preferred Units

On April 3, 2014, the Operating Partnership completed the purchase of a store located in Georgia. This store was acquired in exchange for $15,158 of cash and 333,360 Series B Units valued at $8,334.

On August 29, 2013, the Operating Partnership completed the purchase of 19 out of 20 stores affiliated with All Aboard Mini Storage, all of which are located in California. On September 26, 2013, the Operating Partnership completed the purchase of the remaining store. These stores were acquired in exchange for $100,876 of cash (including $98,960 of debt assumed and immediately defeased at closing), 1,342,727 Series B Units valued at $33,568, and 1,448,108 OP Units valued at $62,341.

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The Partnership Agreement provides for the designation and issuance of the Series B Units. The Series B Units rank junior to the Series A Units, on parity with the Series C Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

The outstanding Series B Units have a liquidation value of $25.00 per unit for a fixed liquidation value of $41,903. Holders of the Series B Units receive distributions at an annual rate of 6%. These distributions are cumulative. The Series B Units will become redeemable at the option of the holder on the first anniversary of the date of issuance, which redemption obligation may be satisfied at the Company s option in cash or shares of its common stock.

Series C Convertible Redeemable Preferred Units

On November 19, 2013, the Company entered into Contribution Agreements with various entities affiliated with Grupe Properties Co. Inc. (Grupe), under which the Company agreed to acquire twelve stores, all of which are located in California. The Company completed the purchase of these stores between December 2013 and May 2014. The Company previously held 35% interests in five of these stores and a 40% interest in one store through six separate joint ventures with Grupe. These stores were acquired in exchange for a total of approximately $45,722 of cash, the assumption of $37,532 in existing debt, and the issuance of 704,016 Series C Units valued at $30,960.

The Partnership Agreement provides for the designation and issuance of the Series C Units. The Series C Units rank junior to the Series A Units, on parity with the Series B Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

The outstanding Series C Units have a liquidation value of $42.10 per unit for a fixed liquidation value of $29,639. From issuance to the fifth anniversary of issuance, each Series C Unit holder will receive quarterly distributions equal to the quarterly distribution per OP Unit plus $0.18. Beginning on the fifth anniversary of issuance, each Series C Unit holder will receive a fixed quarterly distribution equal to the aggregate quarterly distribution payable in respect of such Series C Unit during the four quarters immediately preceding the fifth anniversary of issuance, divided by four. These distributions are cumulative. The Series C Units will become redeemable at the option of the holder one year from the date of issuance, which redemption obligation may be satisfied at the Company s option in cash or shares of its common stock. The Series C Units will also become convertible into OP Units at the option of the holder one year from the date of issuance, at a rate of 0.9145 OP Units per Series C Unit converted. This conversion option expires upon the fifth anniversary of the date of issuance.

In December 2014, the Operating Partnership loaned certain holders of the Series C Units $20,230. The notes receivable, which are collateralized by the Series C Units, bear interest at 5.0% per annum and mature on December 15, 2024. The Series C Units are shown on the balance sheet net of the $20,230 loan because the borrower under the loan receivable is also the holder of the Series C units.

Series D Redeemable Preferred Units

In December 2014, the Operating Partnership completed the acquisition of a store located in Florida. This store was acquired in exchange for $5,621 in cash and 548,390 Series D Units valued at $13,710.

The Partnership Agreement provides for the designation and issuance of the Series D Units. The Series D Units rank junior to the Series A Units, on parity with the Series B Units and Series C Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

The Series D Units have a liquidation value of $25.00 per unit, for a fixed liquidation value of $13,710. Holders of the Series D Units receive distributions at an annual rate of 5.0%. These distributions are cumulative. The Series D Units will become redeemable at the option of the holder on the first anniversary of the date of issuance, which redemption obligation may be satisfied at the Company s option in cash or shares of its common stock.

11. NONCONTROLLING INTEREST IN OPERATING PARTNERSHIP

The Company s interest in its stores is held through the Operating Partnership. ESS Holding Business Trust I, a wholly-owned subsidiary of the Company, is the sole general partner of the Operating Partnership. ESS Holding Business Trust II, also a wholly-owned subsidiary of the Company, is a limited partner of the Operating Partnership. Between its general partner and limited partner interests, the Company held a 92.7% ownership interest in the Operating Partnership as of June 30, 2015. The remaining ownership interests in the Operating Partnership (including Preferred Operating Partnership units) of 7.3% are held by certain former owners of assets acquired by the Operating Partnership.

The noncontrolling interest in the Operating Partnership represents OP Units that are not owned by the Company. In conjunction with the formation of the Company, and as a result of subsequent acquisitions, certain persons and entities contributing interests in stores to the Operating Partnership received limited partnership interests in the form of OP Units. Limited partners who received OP Units in the formation transactions or in exchange for contributions for interests in stores have the right to require the Operating Partnership to redeem part or all of their OP Units for cash based upon the fair market value of an equivalent number of shares of the Company s common stock (based on the ten-day average trading price) at the time of the redemption. Alternatively, the Company may, in its sole discretion, elect to acquire those OP Units in exchange for shares of its common stock on a one-for-one basis, subject to anti-dilution adjustments provided in the Partnership Agreement. The ten-day average closing stock price at June 30, 2015 was $67.00 and there were 5,934,710 OP Units outstanding. Assuming that all of the OP Unit holders exercised their right to redeem all of their OP Units on June 30, 2015 and the Company elected to pay the OP Unit holders cash, the Company would have paid $397,626 in cash consideration to redeem the units.

On April 15, 2015, the Company purchased 22 stores located in Arizona and Texas. As part of the consideration for this acquisition, 1,504,277 OP Units were issued with a total value of $101,749.

On June 18, 2015, the Company purchased one store located in Florida. As part of the consideration for this acquisition, 71,054 OP Units were issued with a total value of $4,773.

GAAP requires a company to present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section, but separate from the company s equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations, and requires changes in ownership interest to be accounted for similarly as equity transactions. If noncontrolling interests are determined to be redeemable, they are to be carried at their redemption value as of the balance sheet date and reported as temporary equity.

The Company has evaluated the terms of the OP Units and classifies the noncontrolling interest represented by the OP Units as stockholders equity in the accompanying condensed consolidated balance sheets. The Company will periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling amount as permanent equity in the condensed consolidated balance sheets. Any noncontrolling interests that fail to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (1) the carrying amount and (2) the redemption value as of the end of the period in which the determination is made.

12. OTHER NONCONTROLLING INTERESTS

Other noncontrolling interests represent the ownership interest of a third party in one consolidated joint venture as of June 30, 2015. This consolidated joint venture owns a single operating store in California. The ownership interest of the third-party owner was 3.3%. Other noncontrolling interests are included in the stockholders equity section of the Company s condensed consolidated balance sheets. The income or losses attributable to this third-party owner based on its ownership percentage are reflected in net income allocated to Operating Partnership and other noncontrolling interests in the condensed consolidated statements of operations.

On June 11, 2015, the Company purchased its joint venture partner s remaining 1% interest in an existing joint venture for $1,267. The joint venture owned 19 properties in California, Florida, Nevada, Ohio, Pennsylvania, Tennessee, Texas and Virginia, and as a result of this purchase, these properties became wholly-owned by the Company. Prior to this acquisition, the partner s interest was reported in other noncontrolling interests. Since the Company retained its controlling interest in the subsidiary, this transaction was accounted for as an equity transaction. The carrying amount of the noncontrolling interest was reduced to zero to reflect the purchase, and the difference between the price paid by the Company and the carrying value of the noncontrolling interest was recorded as an adjustment to equity attributable to the Company.

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13. EQUITY IN EARNINGS OF UNCONSOLIDATED REAL ESTATE VENTURES GAIN ON SALE OF REAL ESTATE AND PURCHASE OF JOINT VENTURE PARTNERS INTERESTS

In March 2015, ESS PRISA II LLC (PRISA II), a joint venture in which the Company holds a 2.0% interest, sold one store located in New York for $90,000. As a result of the sale, PRISA II recognized a gain of $60,496 and the Company recorded its 2.0% portion of the gain, or $1,228.

In March 2015, the Company acquired its joint venture partner s 82.4% interest in Sacramento One, an existing joint venture which owned one store located in California, for $1,700. In addition, the Company held mortgage notes receivable from Sacramento One totaling $11,009, which were written off as part of the total consideration. Prior to the acquisition, the remaining 17.6% interest was owned by the Company, which accounted for its investment in Sacramento One using the equity method. The Company recorded a non-cash gain of $1,629 related to this transaction, which represents the increase in fair value of the company s interest in the joint venture from its formation to the acquisition date.

14. SEGMENT INFORMATION

The Company operates in three distinct segments: (1) rental operations; (2) tenant reinsurance; and (3) property management, acquisition and development. Management fees collected for wholly-owned stores are eliminated in consolidation. Financial information for the Company s business segments is presented below:

	June 30, 2015	December 31, 2014
Balance Sheet		
Investment in unconsolidated real estate ventures		
Rental operations	$ 84,744	$ 85,711
Total assets		
Rental operations	$ 4,450,043	$ 4,109,673
Tenant reinsurance	33,184	39,383
Property management, acquisition and development	350,523	253,051
	$ 4,833,750	$ 4,402,107

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Statement of Operations				
Total revenues				
Rental operations	$ 161,024	$ 138,778	$ 309,918	$ 270,779
Tenant reinsurance	17,340	14,508	33,850	27,971
Property management, acquisition and development	7,496	7,438	15,246	14,561
	185,860	160,724	359,014	313,311