

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)

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**2795 East Cottonwood Parkway, Suite 400**  
**Salt Lake City, Utah 84121**  
**(Address of principal executive offices)**

**20-1076777**  
**(I.R.S. Employer**  
**Identification No.)**

**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  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  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  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

**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.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Extra Space Storage Inc.****Condensed Consolidated Balance Sheets**

(amounts in thousands, except share data)

	<b>June 30, 2015</b> (Unaudited)	<b>December 31, 2014</b>
<b>Assets:</b>		
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
<b>Total assets</b>	<b>\$ 4,833,750</b>	<b>\$ 4,402,107</b>
<b>Liabilities, Noncontrolling Interests and Equity:</b>		
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
<b>Total liabilities</b>	<b>2,410,472</b>	<b>2,490,124</b>
<b>Commitments and contingencies</b>		
<b>Noncontrolling Interests and Equity:</b>		
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)

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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.

**Table of Contents****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,**

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>				
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
<b>Total revenues</b>	<b>185,860</b>	<b>160,724</b>	<b>359,014</b>	<b>313,311</b>
<b>Expenses:</b>				
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
<b>Total expenses</b>	<b>104,253</b>	<b>90,063</b>	<b>201,971</b>	<b>182,252</b>
<b>Income from operations</b>	<b>81,607</b>	<b>70,661</b>	<b>157,043</b>	<b>131,059</b>
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
<b>Income before equity in earnings of unconsolidated real estate ventures and income tax expense</b>	<b>60,140</b>	<b>43,479</b>	<b>115,517</b>	<b>85,099</b>
Equity in earnings of unconsolidated real estate ventures	3,001	2,604	5,651	5,023
		3,438	2,857	3,438



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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)	
<b>Net income</b>	<b>60,956</b>	<b>46,008</b>	<b>119,592</b>	<b>87,217</b>	
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)	
<b>Net income attributable to common stockholders</b>	<b>\$ 55,339</b>	<b>\$ 41,665</b>	<b>\$ 109,081</b>	<b>\$ 79,005</b>	
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.

Table of Contents**Extra Space Storage Inc.****Condensed Consolidated Statements of Comprehensive Income**

(amounts in thousands)

(unaudited)

**For the Three Months Ended June 30, 2015 and 2014, the Six Months Ended June 30,**

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Net income</b>	\$ 60,956	\$ 46,008	\$ 119,592	\$ 87,217
<b>Other comprehensive income (loss):</b>				
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
<b>Comprehensive income attributable to common stockholders</b>	<b>\$ 61,320</b>	<b>\$ 36,210</b>	<b>\$ 108,746</b>	<b>\$ 70,922</b>

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 Accumulated					Noncontrolling Interests	
	Series A	Series B	Series C	Series D	Operating Partnership	Other	Shares	Par Value	Additional Paid in Capital	Other Comprehensive Income		Accumulated Deficit
at December 31,	\$ 14,809	\$ 41,903	\$ 10,730	\$ 13,710	\$ 92,422	\$ 984	116,360,239	\$ 1,163	\$ 1,995,484	\$ (1,484)	\$ (257,738)	\$
Stock							50,634	1	1,101			
Shares							106,675	1				
Shares							(14,043)					
Stock, ending							6,325,000	63	416,580			
ion									2,795			
est												
d e										(446)		
					106,522	(822)						

