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 incorporation or organization)	**(I.R.S. Employer 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						Extra Space Storage Inc. Stockholders Equity					
	Preferred Operating Partnership										Accumulated	
	Series A	Series B	Series C	Series D	Operating Partnership	Other	Shares	Par Value	Additional Paid-in Captial	Other Comprehensive Income	Deficit	Non
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			
st d 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												
/ 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,		For the Six Months Ended June 30,	
	2015	2014	2015	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	$ 5,46
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	4,24
1	6/8/2015	10,046	9,970				76			964	9,08
1	5/13/2015	12,512	12,515				(3)			1,625	10,87
1	5/7/2015	6,498	6,458				40			2,087	4,29
1	5/5/2015	11,007	10,976				31			4,050	6,86
1	4/24/2015	6,500	6,451				49			370	6,01
22	4/15/2015	178,252	75,681				822	101,749	1,504,277	24,087	151,46
1	4/14/2015	8,650	8,580				70			619	7,86
1	3/30/2015	12,699	1,700	1,629	11,009	(1,264)	(375)			1,025	11,47
2	3/30/2015	13,165	13,143				22			1,763	11,22
1	3/17/2015	5,073	5,065				8			118	4,79
1	2/24/2015	13,570	13,519				51			1,511	11,86
3	1/13/2015	41,904	41,806				98			12,080	29,48
39		**$ 349,473**	**$ 225,879**	**$ 1,629**	**$ 15,610**	**$ (1,264)**	**$ 1,097**	**$ 106,522**	**1,575,331**	**$ 52,241**	**$ 292,23**

(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:

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

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

	Gain (loss) recognized in OCI June 30,			Gain (loss) reclassifed from OCI For the Six Months Ended June 30,	
Type	**2015**	**2014**	**Location of amounts reclassified from OCI into income**	**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.

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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
Operating expenses, including depreciation and amortization				
Rental operations	77,326	68,620	152,835	138,562
Tenant reinsurance	3,283	2,636	6,211	5,203
Property management, acquisition and development	23,644	18,807	42,925	38,487
	104,253	90,063	201,971	182,252
Income (loss) from operations				
Rental operations	83,698	70,158	157,083	132,217
Tenant reinsurance	14,057	11,872	27,639	22,768
Property management, acquisition and development	(16,148)	(11,369)	(27,679)	(23,926)
	81,607	70,661	157,043	131,059
Loss on earnout from prior acquisition				
Property management, acquisition and development	400	(7,785)	400	(7,785)
Interest expense				
Rental operations	(22,703)	(20,348)	(43,860)	(39,658)
Property management, acquisition and development	(108)	(310)	(382)	(598)
	(22,811)	(20,658)	(44,242)	(40,256)
Non-cash interest expense related to the amortization of discount on equity component of exchangeable senior notes				
Property management, acquisition and development	(696)	(663)	(1,393)	(1,325)
Interest income				
Tenant reinsurance	4	4	8	8
	424	708	1,276	973

Property management, acquisition and development				
	428	712	1,284	981
Interest income on note receivable from Preferred Operating Partnership unit holder				
Property management, acquisition and development	1,212	1,212	2,425	2,425
Equity in earnings of unconsolidated real estate ventures				
Rental operations	3,001	2,604	5,651	5,023
Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of partners interests				
Rental operations		3,438	2,857	3,438
Income tax expense				
Rental operations	(325)	601	(1,079)	2,020
Tenant reinsurance	(2,429)	(3,856)	(4,303)	(7,671)
Property management, acquisition and development	569	(258)	949	(692)
	(2,185)	(3,513)	(4,433)	(6,343)
Net income (loss)				
Rental operations	63,671	56,453	120,652	103,040
Tenant reinsurance	11,632	8,020	23,344	15,105
Property management, acquisition and development	(14,347)	(18,465)	(24,404)	(30,928)
	$ 60,956	$ 46,008	$ 119,592	$ 87,217
Depreciation and amortization expense				
Rental operations	$ 29,117	$ 26,326	$ 57,382	$ 52,786
Property management, acquisition and development	2,435	1,945	4,598	3,860
	$ 31,552	$ 28,271	$ 61,980	$ 56,646
Statement of Cash Flows				
Acquisition of real estate assets				
Property management, acquisition and development			$ (240,892)	$ (296,920)
Development and redevelopment of real estate assets				
Property management, acquisition and development			$ (9,926)	$ (5,958)

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15. COMMITMENTS AND CONTINGENCIES

As of June 30, 2015, the Company is involved in various legal proceedings and is subject to various claims and complaints arising in the ordinary course of business. In the opinion of management, such litigation, claims and complaints are not expected to have a material adverse effect on the Company s financial condition or results of operations.

As of June 30, the Company was under contract to acquire 20 stores for a total purchase price of $204,862. Of these 20 stores, nine are scheduled to close in 2015. The remaining stores will close upon completion of construction, expected to occur on various dates in 2016, 2017 and 2018.

On June 15, 2015, the Company announced that it had entered into a definitive agreement to acquire SmartStop Self Storage, Inc. (SmartStop), a public non-traded REIT. SmartStop shareholders will receive $13.75 per share in cash which represents a total purchase price of $1,400,000. The Company will pay approximately $1,290,000, and the remaining $110,000 will come from the sale of certain assets by SmartStop prior to the closing. Upon the completion of the acquisition, the Company will own 122 SmartStop stores and will assume the management of 42 third-party stores.

16. SUBSEQUENT EVENTS

On July 1, 2015, a joint venture in which the Company owns a 10% equity interest acquired a store located in Arizona for $5,400. The store was acquired at completion of construction.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Amounts in thousands, except store and share data

CAUTIONARY LANGUAGE

The following discussion and analysis should be read in conjunction with our unaudited *Condensed Consolidated Financial Statements* and the *Notes to Condensed Consolidated Financial Statements (unaudited)* appearing elsewhere in this report and the *Consolidated Financial Statements, Notes to Consolidated Financial Statements* and *Management s Discussion and Analysis of Financial Condition and Results of Operations* contained in our Form 10-K for the year ended December 31, 2014. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-Q entitled *Statement on Forward-Looking Information*.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based on our unaudited condensed consolidated financial statements contained elsewhere in this report, which have been prepared in accordance with GAAP. Our notes to the unaudited condensed consolidated financial statements contained elsewhere in this report and the audited financial statements contained in our Form 10-K for the year ended December 31, 2014 describe the significant accounting policies essential to our unaudited condensed consolidated financial statements. Preparation of our financial statements requires estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions that we have used are appropriate and correct based on information available at the time they were made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported revenues and expenses during the period presented. If there are material differences between these estimates, judgments and assumptions and actual facts, our financial statements may be affected.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require our judgment in its application. There are areas in which our judgment in selecting among available alternatives would not produce a materially different result, but there are some areas in which our judgment in selecting among available alternatives would produce a materially different result. See the notes to the unaudited condensed consolidated financial statements that contain additional information regarding our accounting policies and other disclosures.

OVERVIEW

We are a fully integrated, self-administered and self-managed REIT, formed to continue the business commenced in 1977 by Extra Space Storage LLC and its subsidiaries to own, operate, manage, acquire, develop and redevelop professionally managed self-storage stores.

We derive substantially all of our revenues from rents received from tenants under leases at each of our wholly-owned stores; from management fees on the stores we manage for joint venture partners and unaffiliated third parties; and from our tenant reinsurance program. Our management fee is equal to approximately 6% of cash collected from the managed stores. We also receive an asset management fee of 0.5% of the total asset value from one of our joint ventures.

We operate in competitive markets, often where consumers have multiple stores from which to choose. Competition has impacted, and will continue to impact, our store results. We experience seasonal fluctuations in occupancy levels,

with occupancy levels generally higher in the summer months due to increased moving activity. Our operating results depend materially on our ability to lease available self-storage units and actively manage rental rates, and on the ability of our tenants to make required rental payments. We believe that we are able to respond quickly and effectively to changes in local, regional and national economic conditions by centrally adjusting rental rates through the combination of our revenue management team and our industry-leading technology systems.

We continue to evaluate a range of new initiatives and opportunities in order to enable us to maximize stockholder value. Our strategies to maximize stockholder value include the following:

Maximize the performance of our stores through strategic, efficient and proactive management. We pursue revenue-generating and expense-minimizing opportunities in our operations. Our revenue management team seeks to maximize revenue by responding to changing market conditions through our advanced technology system s ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than the majority of our competitors to implement more effective online marketing programs, which we believe will attract more customers to our stores at a lower net cost.

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Acquire self-storage stores. Our acquisitions team continues to pursue the acquisition of multi-store portfolios and single stores that we believe can provide stockholder value. We have established a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, we believe our status as an UPREIT enables flexibility when structuring deals. We continue to see available acquisitions on which to bid and are seeing increasing prices. However, we remain a disciplined buyer and look for acquisitions that will strengthen our portfolio and increase stockholder value.

Expand our management business. Our management business enables us to generate increased revenues through management fees and to expand our geographic footprint. We believe this expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We pursue strategic relationships with owners whose stores would enhance our portfolio in the event an opportunity arises to acquire such stores.

Pending Acquisition of SmartStop

On June 15, 2015, we, our Operating Partnership, Merger Sub I, Merger Sub II, SmartStop and SmartStop OP entered into the Merger Agreement, which provides that (i) the Company will acquire SmartStop by way of a merger of SmartStop with and into Merger Sub I, with Merger Sub I being the surviving entity (the Company Merger), (ii) immediately after the Company Merger, but before the Partnership Merger, Merger Sub I will transfer certain of its limited partnership units of SmartStop OP to a taxable REIT subsidiary of the Company, and (iii) immediately after the Transfer, Merger Sub II will merge with and into SmartStop OP, with SmartStop OP continuing as the surviving entity (the Partnership Merger).

Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, at the Company Merger Effective Time, each outstanding share of SmartStop Common Stock prior to the Company Merger Effective Time (other than shares owned by SmartStop and its subsidiaries or the Company and its subsidiaries) will be automatically converted into the right to receive an amount in cash equal to $13.75, without interest and less any applicable withholding taxes. At the Company Merger Effective Time, all shares of SmartStop Common Stock that are subject to vesting and other restrictions will become fully vested and be converted into the right to receive the Merger Consideration. At the effective time of the Partnership Merger, each outstanding SmartStop OP partnership unit, other than partnership units held by SmartStop and its subsidiaries or the Company and its subsidiaries (including the Transferred Units), will be automatically converted into the right to receive an amount in cash equal to $13.75, without interest and less any applicable withholding taxes, provided however, if the SmartStop OP unit holder is an accredited investor as defined by Rule 501(a) of Regulation D promulgated under the Securities Act and timely makes a valid election to receive common operating partnership units of our Operating Partnership in lieu of cash, each unit held by such SmartStop OP unit holder will be converted into the right to receive 0.2031 common operating partnership units of our Operating Partnership, including the right to receive cash in lieu of any fractional interests in such units.

The closing of the Company Merger is subject to the approval of the Company Merger by the affirmative vote of holders of not less than a majority of all outstanding shares of SmartStop Common Stock. The closing of the Mergers is also subject to various customary conditions, including but not limited to the following: (i) the absence of any governmental order prohibiting the consummation of the transactions contemplated by the Merger Agreement, (ii) the accuracy of the representations and warranties contained in the Merger Agreement (subject to certain materiality qualifications), (iii) compliance with the covenants and agreements in the Merger Agreement in all material respects, (iv) the absence of any material adverse effect on SmartStop, (v) the receipt of certain third party consents, and (vi) the completion of the sale of the Excluded Assets.

PROPERTIES

As of June 30, 2015, we owned, had ownership interests in, or managed 1,147 stores in 35 states, Washington, D.C. and Puerto Rico. Of these 1,147 stores, we owned 615 stores, we held joint venture interests in 251 stores, and our taxable REIT subsidiary, Extra Space Management, Inc., operated an additional 281 stores that are owned by third parties. These operating stores contain approximately 85.1 million square feet of rentable space in approximately 770,000 units.

Our stores are generally situated in convenient, highly visible locations clustered around large population centers such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando,

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Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These areas all enjoy above-average population growth and income levels. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. Our acquisitions and management business have given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.

We consider a store to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. We consider a store to be stabilized once it has achieved either an 80% average occupancy rate for a full year measured as of January 1, or has been open for three years.

As of June 30, 2015, approximately 685,000 tenants were leasing storage units at the 1,147 operating stores that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as market conditions permit. Existing tenants generally receive rate increases at least annually, for which no direct correlation has been drawn to our vacancy trends. Although leases are short-term in duration, the typical tenant tends to remain at our stores for an extended period of time. For stores that were stabilized as of June 30, 2015, the average length of stay was approximately 13.2 months for tenants that vacated during the preceding twelve month period.

The average annual rent per square foot for our existing customers at stabilized stores, net of discounts and bad debt, was $14.63 for the three months ended June 30, 2015, compared to $13.83 for the same period ended June 30, 2014. Average annual rent per square foot for new leases was $15.71 for the three months ended June 30, 2015, compared to $14.62 for the same period ended June 30, 2014. The average discounts, as a percentage of rental revenues, during these periods were 3.2% and 4.0%, respectively.

Our store portfolio is made up of different types of construction and building configurations depending on the site and the municipality where it is located. Most often sites are what we consider hybrid stores, a mix of drive-up and multi-floor buildings. We have a number of multi-floor buildings with elevator access only, and a number of stores featuring ground-floor access only.

The following table presents additional information regarding the occupancy of our stabilized stores by state as of June 30, 2015 and 2014. The information as of June 30, 2014 is on a pro forma basis as though all the stores owned and/or managed at June 30, 2015 were under our control as of June 30, 2014.

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Stabilized Store Data Based on Location

Location	Number of Stores	Company Number of Units as of June 30, 2015 (1)	Pro forma Number of Units as of June 30, 2014	Company Net Rentable Square Feet as of June 30, 2015 (2)	Pro forma Net Rentable Square Feet as of June 30, 2014	Company Square Foot Occupancy %	Pro forma Square Foot Occupancy %
Wholly-Owned Stores							
Alabama	5	2,968	2,889	343,531	343,162	94.8%	89.9%
Arizona	12	7,683	7,550	889,423	885,965	92.1%	89.5%
California	126	94,725	94,145	9,802,992	9,829,157	95.3%	91.6%
Colorado	12	5,931	5,839	738,659	737,391	96.5%	94.4%
Connecticut	5	3,135	3,122	299,034	299,970	97.0%	93.4%
Florida	62	43,370	43,101	4,640,151	4,663,600	94.1%	90.9%
Georgia	24	14,286	14,209	1,847,406	1,846,464	93.6%	88.9%
Hawaii	5	5,760	5,623	341,283	335,465	93.9%	90.2%
Illinois	18	12,706	12,346	1,302,407	1,289,102	88.3%	88.9%
Indiana	9	4,791	4,722	555,943	554,558	91.6%	93.2%
Kansas	1	533	506	49,991	50,360	88.3%	93.0%
Kentucky	4	2,181	2,162	253,741	254,141	94.1%	93.5%
Louisiana	2	1,408	1,409	149,990	150,065	93.9%	94.0%
Maryland	23	17,478	17,272	1,817,253	1,818,067	94.1%	93.7%
Massachusetts	37	23,068	22,815	2,316,668	2,314,682	93.9%	91.6%
Michigan	3	1,821	1,799	258,877	254,064	95.0%	93.3%
Missouri	6	3,247	3,217	387,401	385,226	93.5%	93.7%
Nevada	6	3,918	3,948	624,030	622,914	90.8%	85.1%
New Hampshire	2	1,016	1,010	125,748	125,748	95.6%	93.2%
New Jersey	49	38,012	37,811	3,686,742	3,681,116	94.6%	94.3%
New Mexico	3	1,591	1,569	220,112	217,644	89.4%	86.1%
New York	20	17,629	17,620	1,461,553	1,459,478	93.7%	91.5%
North Carolina	8	5,244	5,157	557,728	551,068	95.9%	91.5%
Ohio	21	11,320	11,195	1,483,709	1,477,721	94.2%	92.0%
Oregon	3	2,157	2,150	250,450	250,530	97.6%	95.5%
Pennsylvania	10	7,414	7,365	761,334	757,227	94.0%	91.9%
Rhode Island	2	1,235	1,184	131,566	131,396	96.2%	92.5%
South Carolina	6	3,384	3,335	421,001	418,365	90.9%	94.2%
Tennessee	13	7,686	7,595	1,041,312	1,038,152	95.2%	94.5%
Texas	57	36,135	36,148	4,357,418	4,328,208	92.6%	89.9%
Utah	8	4,234	4,245	522,858	523,006	94.5%	90.5%
Virginia	30	23,204	23,067	2,476,661	2,461,405	93.0%	85.8%
Washington	6	3,592	3,560	428,588	427,603	94.8%	91.2%
Total Wholly-Owned Stabilized	**598**	**412,862**	**409,685**	**44,545,560**	**44,483,020**	**94.0%**	**91.2%**

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Location	Number of Stores	Company Number of Units as of June 30, 2015 (1)	Pro forma Number of Units as of June 30, 2014	Company Net Rentable Square Feet as of June 30, 2015 (2)	Pro forma Net Rentable Square Feet as of June 30, 2014	Company Square Foot Occupancy % June 30, 2015	Pro forma Square Foot Occupancy % June 30, 2014
Joint-Venture Stores							
Alabama	2	1,168	1,150	145,106	145,231	97.2%	91.2%
Arizona	7	4,273	4,235	492,553	492,918	91.1%	89.9%
California	66	47,347	47,069	4,831,186	4,825,833	95.5%	93.3%
Colorado	2	1,316	1,324	158,769	159,703	97.5%	95.1%
Connecticut	7	5,315	5,297	611,045	611,790	95.1%	93.3%
Delaware	1	597	590	71,610	71,705	86.2%	92.6%
Florida	16	13,221	13,065	1,295,246	1,294,548	92.8%	91.6%
Georgia	2.	1,080	1,063	152,554	151,724	91.8%	89.6%
Illinois	5	3,484	3,454	365,465	365,083	94.3%	95.8%
Indiana	5	2,228	2,189	288,990	286,498	93.8%	91.5%
Kansas	2	843	844	109,355	109,695	94.4%	91.8%
Kentucky	4	2,279	2,262	257,439	257,199	90.3%	88.7%
Maryland	12	9,840	9,760	956,835	955,170	93.4%	93.0%
Massachusetts	13	6,970	6,905	774,919	783,655	95.3%	92.7%
Michigan	8	4,848	4,803	616,048	612,523	95.5%	93.1%
Missouri	1	535	533	61,075	61,225	96.2%	95.1%
Nevada	4	2,307	2,288	253,057	252,223	92.6%	91.1%
New Hampshire	2	799	777	85,111	84,095	93.1%	91.1%
New Jersey	16	13,005	12,960	1,357,146	1,385,979	92.7%	92.9%
New Mexico	7	3,616	3,603	397,184	398,245	90.9%	90.2%
New York	12	11,938	11,934	976,415	977,556	94.2%	92.4%
Ohio	6	3,148	3,117	414,644	415,304	91.1%	91.8%
Oregon	1	655	653	64,970	64,970	97.8%	95.0%
Pennsylvania	9	6,350	6,328	697,357	696,399	93.8%	93.5%
Tennessee	14	7,399	7,336	957,378	956,468	94.3%	94.2%
Texas	13	8,488	8,424	1,132,221	1,127,005	96.1%	94.6%
Virginia	12	8,672	8,627	918,062	917,714	94.1%	92.5%
Washington, DC	1	1,547	1,530	102,492	102,017	93.7%	93.3%
Total Joint-Venture Stabilized	**250**	**173,268**	**172,120**	**18,544,232**	**18,562,475**	**94.2%**	**92.9%**
Managed Stores							
Alabama	7	2,321	2,359	350,100	358,110	91.2%	85.6%
Arizona	3	1,227	1,208	224,963	226,407	89.2%	82.0%
California	66	43,874	44,638	5,748,201	5,936,972	90.4%	83.5%
Colorado	16	8,397	8,346	1,070,517	1,067,037	96.2%	95.3%
Connecticut	1	459	467	61,385	61,600	95.6%	86.7%
Florida	36	23,010	22,990	2,783,188	2,779,733	91.5%	87.2%
Georgia	8	3,939	3,931	590,417	592,554	93.0%	88.8%
Hawaii	6	5,006	5,077	350,042	350,639	90.2%	87.1%
Illinois	6	3,612	3,610	393,685	393,375	91.0%	93.7%

Indiana	9	5,054	5,038	618,567	618,777	91.9%	93.9%
Kentucky	2	1,330	1,325	220,977	220,977	97.0%	96.5%
Louisiana	1	992	999	132,770	133,435	90.8%	85.6%
Maryland	15	10,258	10,251	978,422	981,957	91.4%	90.2%
Mississippi	2	1,885	1,890	281,328	281,508	92.4%	87.5%
Missouri	3	1,451	1,539	168,901	193,151	94.0%	91.8%
Nevada	4	2,999	3,094	316,435	315,885	85.7%	75.8%
New Jersey	3	1,637	1,617	181,188	180,538	91.9%	94.5%
New Mexico	2	1,137	1,120	130,652	131,312	93.7%	91.6%
New York	1	2,049	2,049	88,000	88,000	94.5%	94.5%
North Carolina	2	1,210	1,206	167,540	167,938	91.9%	93.2%
Ohio	8	2,842	2,947	395,606	428,104	91.9%	89.7%
Pennsylvania	15	6,952	6,947	858,782	862,347	93.3%	89.3%
South Carolina	2	1,179	1,199	153,546	153,546	90.7%	93.5%
Tennessee	3	1,345	1,347	198,471	198,396	94.5%	91.6%
Texas	23	12,188	12,036	1,672,547	1,635,761	90.0%	85.1%
Utah	4	2,020	2,032	314,040	314,485	94.0%	93.2%
Virginia	4	2,435	2,402	249,024	249,714	93.2%	91.8%
Washington, DC	2	1,267	1,267	112,334	112,334	94.1%	94.6%
Puerto Rico	4	2,663	2,680	286,953	287,459	85.9%	85.1%
Total Managed Stabilized	**258**	**154,738**	**155,611**	**19,098,581**	**19,322,051**	**91.5%**	**87.3%**
Total Stabilized Stores	**1,106**	**740,868**	**737,416**	**82,188,373**	**82,367,546**	**93.4%**	**90.7%**

(1) Represents unit count as of June 30, 2015, which may differ from unit count as of June 30, 2014 due to unit conversions or expansions.

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(2) Represents net rentable square feet as of June 30, 2015, which may differ from rentable square feet as of June 30, 2014 due to unit conversions or expansions.

The following table presents additional information regarding the occupancy of our lease-up stores by state as of June 30, 2015 and 2014. The information as of June 30, 2014 is on a pro forma basis as though all the stores owned and/or managed at June 30, 2015 were under our control as of June 30, 2014.

Lease-up Store Data Based on Location

Location	Number of Stores	Company Number of Units as of June 30, 2015 (1)	Pro forma Number of Units as of June 30, 2014	Company Net Rentable Square Feet as of June 30, 2015 (2)	Pro forma Net Rentable Square Feet as of June 30, 2014	Company Square Foot Occupancy % June 30, 2015	Pro forma Square Foot Occupancy % June 30, 2014
Wholly-Owned Stores							
Arizona	1	895	687	121,993	121,993	53.1%	20.0%
California (3)	1		593		58,463	0.0%	94.6%
Connecticut	1	1,108	1,111	89,890	89,310	81.1%	21.8%
Florida	1	544	552	80,835	76,391	90.8%	62.4%
Georgia	1	598	599	52,365	52,365	93.2%	80.1%
Illinois	1	658	584	46,633	47,102	70.2%	90.8%
Maryland	1	988	988	103,171	103,207	86.5%	57.3%
North Carolina	1	977	396	85,235	38,000	56.0%	37.0%
South Carolina	2	1,239	999	131,964	104,875	79.3%	59.1%
Texas	6	3,951	3,298	449,538	367,551	61.1%	36.2%
Virginia	1	455	455	56,805	56,805	79.4%	63.4%
Total Wholly-Owned in Lease-up	**17**	**11,413**	**10,262**	**1,218,429**	**1,116,062**	**70.1%**	**48.0%**
Joint-Venture Stores							
California	1	678		59,239		40.9%	0.0%
Total Joint-Venture in Lease-up	**1**	**678**		**59,239**		**40.9%**	**0.0%**
Managed Stores							
California	2	1,081	1,090	141,305	141,305	60.6%	24.9%
Colorado	2	1,593	1,593	145,702	145,702	42.2%	15.2%
Georgia	1	579		70,722		29.3%	0.0%
Illinois	1	673	673	46,417	46,581	80.0%	43.4%
Maryland	2	1,310	955	114,395	85,684	55.0%	47.0%
Massachusetts	1	902		70,076		25.0%	0.0%
Nevada	1	1,487	1,487	196,275	196,275	54.0%	20.0%
New York	2	2,579	2,578	162,540	162,579	33.1%	81.0%
North Carolina	2	769	430	68,416	36,271	46.0%	20.0%
Oregon	1	636		77,225		9.0%	0.0%

South Carolina	3	2,282	991	241,669	97,789	39.3%	30.0%
Texas	1	597	603	69,435	68,559	79.7%	69.2%
Utah	1	516	535	67,037	67,256	94.3%	42.8%
Virginia	2	1,058	1,059	105,634	106,441	81.3%	40.4%
Washington	1	720		81,030		39.5%	0.0%
Total Managed in Lease-up	**23**	**16,782**	**11,994**	**1,657,878**	**1,154,442**	**49.2%**	**38.5%**
Total Lease-up Stores	**41**	**28,873**	**22,256**	**2,935,546**	**2,270,504**	**57.7%**	**43.2%**

(1) Represents unit count as of June 30, 2015, which may differ from unit count as of June 30, 2014 due to unit conversions or expansions.
(2) Represents net rentable square feet as of June 30, 2015, which may differ from rentable square feet as of June 30, 2014 due to unit conversions or expansions.
(3) In October 2014, a store located in Venice, California was damaged by fire. During the re-construction period all units are unavailable.

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RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 2015 and 2014

Overview

Results for the three and six months ended June 30, 2015 included the operations of 866 stores (615 wholly-owned, one in a consolidated joint venture, and 250 in joint ventures accounted for using the equity method) compared to the results for the three months ended June 30, 2014, which included the operations of 807 stores (535 wholly-owned, 19 in consolidated joint ventures, and 253 in joint ventures accounted for using the equity method).

Revenues

The following table presents information on revenues earned for the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
Revenues:								
Property rental	$ 161,024	$ 138,778	$ 22,246	16.0%	$ 309,918	$ 270,779	$ 39,139	14.5%
Tenant reinsurance	17,340	14,508	2,832	19.5%	33,850	27,971	5,879	21.0%
Management fees and other income	7,496	7,438	58	0.8%	15,246	14,561	685	4.7%
Total revenues	$ 185,860	$ 160,724	$ 25,136	15.6%	$ 359,014	$ 313,311	$ 45,703	14.6%

Property Rental The increase in property rental revenues for the three and six months ended June 30, 2015 was the result of an increase of $10,986 and $18,473, respectively, associated with acquisitions completed in 2015 and 2014, and an increase of $11,623 and $21,463, respectively, as a result of increases in occupancy and rental rates to new and existing customers at our stabilized stores. This was offset by a decrease in revenues for the three and six months ended June 30, 2015 of $532 and $1,055, respectively, as a result of a fire at one property in California in October 2014. We acquired 39 operating stores during the six months ended June 30, 2015 and 51 operating stores during 2014. Occupancy at our wholly-owned stabilized stores increased to 94.0% at June 30, 2015, as compared to 91.2% at June 30, 2014. The achieved rental rate to new tenants for the three months ended June 30, 2015 increased an average of approximately 3.5% over the same period in the prior year.

Tenant Reinsurance The increase in our tenant reinsurance revenues was due to the increase in the number of stores operated. We operated 1,147 stores at June 30, 2015 compared to 1,071 stores at June 30, 2014.

Management Fees and Other Income Our taxable REIT subsidiary (TRS), Extra Space Management, Inc., manages stores owned by our joint ventures and third parties. Management fees represent approximately 6% of cash collected from these stores. We also earn an asset management fee from one of our joint ventures, equal to 0.5% of the total asset value, provided certain conditions are met. The increase in management fee revenues was due to an increase in revenues at the managed stores as a result of increases in occupancy and rental rates, and to an increase in the number of properties managed.

Expenses

The following table presents information on expenses for the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
Expenses:								
Property operations	$ 48,209	$ 42,294	$ 5,915	14.0%	$ 95,453	$ 85,776	$ 9,677	11.3%
Tenant reinsurance	3,283	2,636	647	24.5%	6,211	5,203	1,008	19.4%
Acquisition related costs	4,554	1,393	3,161	226.9%	5,423	3,449	1,974	57.2%
General and administrative	16,655	15,469	1,186	7.7%	32,904	31,178	1,726	5.5%
Depreciation and amortization	31,552	28,271	3,281	11.6%	61,980	56,646	5,334	9.4%
Total expenses	$ 104,253	$ 90,063	$ 14,190	15.8%	$ 201,971	$ 182,252	$ 19,719	10.8%

Property Operations The increase in property operations expense during the three and six months ended June 30, 2015 consisted primarily of increases in expenses associated with acquisitions completed in 2015 and 2014. We acquired 39 operating stores during the six months ended June 30, 2015, and 51 operating stores during the year ended December 31, 2014.

Tenant Reinsurance Tenant reinsurance expense represents the costs that are incurred to provide tenant reinsurance. The increase was primarily due to the increase in the number of stores we owned and/or managed. At June 30, 2015, we owned and/or managed 1,147 stores compared to 1,071 stores at June 30, 2014.

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Acquisition Related Costs These costs relate to acquisition activities during the periods indicated. The increase in these expenses for the three and six months ended June 30, 2015 compared to the same periods in the prior year was due to an increase in the number of acquisitions completed during these periods. We completed the acquisition of 39 stores during the six months ended June 30, 2015 compared to 29 stores during the same period in the prior year. In addition, during the three months ended June 30, 2015, we wrote off a nonrefundable deposit of $2,440 related to a property that we had under contract but decided not to purchase as a result of environmental issues.

General and Administrative General and administrative expenses primarily include all expenses not directly related to our stores, including corporate payroll, travel and professional fees. These expenses are recognized as incurred. General and administrative expenses for the three and six months ended June 30, 2015 increased when compared to the same period in the prior year primarily due to the overall cost associated with the management of additional stores. At June 30, 2015, we owned and/or managed 1,147 stores compared to 1,071 stores at June 30, 2014. We did not observe any material trends in specific payroll, travel or other expenses that contributed significantly to the increase in general and administrative expenses apart from the increase due to the management of additional stores.

Depreciation and Amortization Depreciation and amortization expense increased as a result of the acquisition of new stores. We acquired 39 stores during the six months ended June 30, 2015 and 51 stores during 2014.

Other Revenues and Expenses

The following table presents information about other revenues and expenses for the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
Other income and expenses:								
Gain (loss) on earnout from prior acquisitions	$ 400	$ (7,785)	$ 8,185	(105.1%)	$ 400	$ (7,785)	$ 8,185	(105.1%)
Interest expense	(22,811)	(20,658)	(2,153)	10.4%	(44,242)	(40,256)	(3,986)	9.9%
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	(696)	(663)	(33)	5.0%	(1,393)	(1,325)	(68)	5.1%
Interest income	428	712	(284)	(39.9%)	1,284	981	303	30.9%
Interest income on note receivable from Preferred Operating Partnership unit holder	1,212	1,212			2,425	2,425		
Equity in earnings of unconsolidated real	3,001	2,604	397	15.2%	5,651	5,023	628	12.5%

estate ventures								
Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners interests		3,438	(3,438)	(100.0%)	2,857	3,438	(581)	(16.9%)
Income tax expense	(2,185)	(3,513)	1,328	(37.8%)	(4,433)	(6,343)	1,910	(30.1%)
Total other expense, net	$ (20,651)	$ (24,653)	$ 4,002	(16.2%)	$ (37,451)	$ (43,842)	$ 6,391	(14.6%)

Gain (Loss) on Earnout from Prior Acquisitions In 2011, we acquired a single store in Florida. As part of the acquisition, we agreed to make an additional cash payment to the sellers if the acquired store exceeded a specified amount of net rental income for the period of 12 consecutive months ending June 30, 2015. During 2014 we recorded a liability of $2,500 as an estimate of the payment that would become due. The $400 gain recorded during the three months ended June 30, 2015 represents the adjustment needed to true up the existing liability to the amount owed to the sellers as of June 30, 2015.

During 2012, we acquired a portfolio of 10 self-storage properties. As part of this acquisition, we agreed to make an additional cash payment to the sellers if the acquired stores exceeded a specified amount of net rental income two years after the acquisition date. At the acquisition date, we believed that it was unlikely that any significant payment would be made as a result of this earnout provision. The rental income of the stores during the earnout period was significantly higher than expected, resulting in a payment to the sellers of $7,785, which was recorded as a loss during the three months ended June 30, 2014.

Interest Expense The increase in interest expense during the three and six months ended June 30, 2015 was the result of increases in debt over the same periods in the prior year. The total face value of our debt, including our lines of credit, was $2,298,142 at June 30, 2015 compared to $2,173,639 at June 30, 2014.

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Non-cash Interest Expense Related to Amortization of Discount on Equity Component of Exchangeable Senior Notes Represents the amortization of the discount related to the equity component of the exchangeable senior notes issued by our Operating Partnership, which reflects the effective interest rate of 4.0% relative to the carrying amount of the liability.

Interest Income Interest income represents amounts earned on cash and cash equivalents deposited with financial institutions and interest earned on notes receivable. The decrease for the three months ended June 30, 2015 and the increase for the six months ended June 30, 2015 relate to fluctuations in the balance of notes receivable compared to the same periods in the prior year.

Interest Income on Note Receivable from Preferred Operating Partnership Unit Holders Represents interest on a $100,000 loan to the holders of the Series A Participating Redeemable Preferred Units of our Operating Partnership (Series A Units).

Equity in Earnings of Unconsolidated Real Estate Ventures Equity in earnings of unconsolidated real estate ventures represents the income earned through our ownership interests in unconsolidated joint ventures. The increases for the three and six months ended June 30, 2015 compared to the same periods in the prior year was primarily the result of increases in revenue at the stores owned by the joint ventures. Occupancy at our joint venture stores increased to 94.2% as of June 30, 2015, compared to 92.9% as of June 30, 2014.

Equity in Earnings of Unconsolidated Real Estate Ventures Gain on Sale of Real Estate Assets and Purchase of Joint Venture Partners Interests During March 2015, one of our joint ventures sold a store located in New York to a third party and recognized a gain of $60,496. We recognized our 2.0% share of this gain, or $1,228. Additionally, in March 2015 we acquired a joint venture partner s 82.4% equity interest in an existing joint venture. We previously held the remaining 17.6% equity interest in this joint venture. Prior to the acquisition, we accounted for our equity interest in this joint venture as an equity-method investment. We recognized a non-cash gain of $1,629 during the three months ended March 31, 2015 as a result of re-measuring the fair value of our equity interest in this joint venture held before the acquisition.

Income Tax Expense For the three and six months ended June 30, 2015, the decrease in income tax expense was related to a royalty charged to our TRS by the Operating Partnership for access to and use of customer lists and intellectual property. The effect of this change lowered the taxable income of the TRS, which resulted in lower income tax expense.

Net Income Allocated to Noncontrolling Interests

The following table presents information on net income allocated to noncontrolling interests for the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
Net income allocated to noncontrolling interests:								
Net income allocated to Preferred Operating	$ (3,007)	$ (2,812)	$ (195)	6.9%	$ (5,933)	$ (5,304)	$ (629)	11.9%

Partnership noncontrolling interests								
Net income allocated to Operating Partnership and other noncontrolling interests	(2,610)	(1,531)	(1,079)	70.5%	(4,578)	(2,908)	(1,670)	57.4%
Total income allocated to noncontrolling interests:	$ (5,617)	$ (4,343)	$ (1,274)	29.3%	$ (10,511)	$ (8,212)	$ (2,299)	28.0%

Net Income Allocated to Preferred Operating Partnership Noncontrolling Interests In December 2014, as part of the acquisition of a single store, our Operating Partnership issued 548,390 Series D Units. The Series D Units have a liquidation value of $25.00 per unit, and receive distributions at an annual rate of 5.0%.

Between December 2013 and May 2014, as part of the Grupe acquisition, our Operating Partnership issued 704,016 Series C Units. The Series C Units have a liquidation value of $42.10 per unit. From issuance until the fifth anniversary of issuance, the Series C Units receive distributions at an annual rate of $0.18 plus the then-payable quarterly distribution per OP Unit.

In April 2014, as part of a single store acquisition, our Operating Partnership issued 333,360 Series B Units. In August and September 2013, as part of a portfolio acquisition, our Operating Partnership issued an additional 1,342,727 Series B Units. The Series B Units have a liquidation value of $25.00 per unit and receive distributions at an annual rate of 6%.

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Income allocated to the Preferred Operating Partnership noncontrolling interests for the three months ended June 30, 2015 represents the fixed distributions paid to holders of the Series A Units, Series B Units, Series C Units and Series D Units, plus approximately 0.7% of the remaining net income allocated to holders of the Series A Units.

Net Income Allocated to Operating Partnership and Other Noncontrolling Interests Income allocated to the Operating Partnership represents approximately 4.5% and 3.5% of net income after the allocation of the fixed distribution paid to the Preferred Operating Partnership unit holders for the three months ended June 30, 2015 and 2014, respectively.

FUNDS FROM OPERATIONS

Funds from Operations (FFO) provides relevant and meaningful information about our operating performance that is necessary, along with net income and cash flows, for an understanding of our operating results. We believe FFO is a meaningful disclosure as a supplement to net earnings. Net earnings assume that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. The values of real estate assets fluctuate due to market conditions and we believe FFO more accurately reflects the value of our real estate assets. FFO is defined by the National Association of Real Estate Investment Trusts, Inc. (NAREIT) as net income computed in accordance with GAAP, excluding gains or losses on sales of operating stores and impairment write downs of depreciable real estate assets, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that to further understand our performance, FFO should be considered along with the reported net income and cash flows in accordance with GAAP, as presented in our condensed consolidated financial statements.

The computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to net income as an indication of our performance, as an alternative to net cash flow from operating activities, as a measure of liquidity, or an indicator of our ability to make cash distributions.

The following table presents the calculation of FFO for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net income attributable to common stockholders	$ 55,339	$ 41,665	$ 109,081	$ 79,005
Adjustments:				
Real estate depreciation	27,311	23,722	53,429	46,962
Amortization of intangibles	2,444	3,109	5,241	6,835
(Gain) loss on sale of real estate and earnout from prior acquisitions	(400)	7,785	(400)	7,785
Unconsolidated joint venture real estate depreciation and amortization	1,058	1,067	2,115	2,173
Unconsolidated joint venture gain on sale of real estate and purchase of partners interests		(3,438)	(2,857)	(3,438)

Distributions paid on Series A Preferred Operating Partnership units	(1,271)	(1,437)	(2,545)	(2,875)
Income allocated to Operating Partnership noncontrolling interests	5,608	4,339	10,501	8,208
Funds from operations attributable to common stockholders	$ 90,089	$ 76,812	$ 174,565	$ 144,655

SAME-STORE RESULTS

We consider our same-store stabilized portfolio to consist of only those stores that were wholly-owned at the beginning and at the end of the applicable periods presented that have achieved stabilization as of the first day of such period. The following table presents operating data for our same-store portfolio. We consider the following same-store presentation to be meaningful in regards to the stores shown below because these results provide information relating to store-level operating changes without the effects of acquisitions or completed developments.

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	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Percent Change	2015	2014	Percent Change
Same-store rental and tenant reinsurance revenues	$ 146,607	$ 134,007	9.4%	$ 286,242	$ 262,936	8.9%
Same-store operating and tenant reinsurance expenses	41,040	39,842	3.0%	83,318	81,401	2.4%
Same-store net operating income	$ 105,567	$ 94,165	12.1%	$ 202,924	$ 181,535	11.8%
Non same-store rental and tenant reinsurance revenues	$ 31,757	$ 19,279	64.7%	$ 57,526	$ 35,814	60.6%
Non same-store operating and tenant reinsurance expenses	$ 10,452	$ 5,088	105.4%	$ 18,346	$ 9,578	91.5%
Total rental and tenant reinsurance revenues	$ 178,364	$ 153,286	16.4%	$ 343,768	$ 298,750	15.1%
Total operating and tenant reinsurance expenses	$ 51,492	$ 44,930	14.6%	$ 101,664	$ 90,979	11.7%
Same-store square foot occupancy as of quarter end	94.5%	92.1%		94.5%	92.1%	
Properties included in same-store	503	503		503	503	

The increase in same-store rental revenues for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, was due primarily to an increase in occupancy of 240 basis points, higher rental rates for both new and existing customers, and reduced customer discounts. Same-store expenses were higher for the three and six months ended June 30, 2015 due to increases in tenant reinsurance expense, property taxes, credit card merchant fees and repairs and maintenance. These increases in expenses were partially offset by decreases in utility expenses and property insurance during the same periods

CASH FLOWS

Cash flows provided by operating activities were $183,287 and $167,759, respectively, for the six months ended June 30, 2015 and 2014. The increase primarily related to an increase in net income of $32,375. The remaining portion of the change related to a decrease in (gain) loss on earnout related to prior acquisitions of $8,185, an increase in other assets of $6,734, a decrease in other liabilities of $6,342, and an increase in depreciation and amortization expense of $5,334.

Cash used in investing activities was $252,789 and $313,442, respectively, for the six months ended June 30, 2015 and 2014. The decrease was primarily due to the cash paid for acquisitions. Cash used in the acquisition of real estate assets decreased $56,028 during the six months ended June 30, 2015 compared to the same period in the prior year. We acquired 39 stores during the six months ended June 30, 2015 compared to 29 stores acquired during the same period of the prior year. However, the consideration paid for the acquisitions in the first six months of 2015 included an increased number of OP units instead of cash when compared to the acquisitions in the first six months of 2014.

Cash provided by financing activities was $197,732 and $72,905, respectively, for the six months ended June 30, 2015 and 2014. The change related primarily to net proceeds from the sale of common stock of $416,643 and an increase in proceeds from notes payable and lines of credit of $470,183. These increases were offset by an increase in the cash

paid for principal payments on notes payable and lines of credit of $735,373, and an increase in dividends paid of $22,599.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2015, we had $175,893 available in cash and cash equivalents. We intend to use this cash to pay for future acquisitions, to repay debt and for general corporate purposes. We are required to distribute at least 90% of our net taxable income, excluding net capital gains, to our stockholders on an annual basis to maintain our qualification as a REIT.

Our cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of invested cash and cash in our operating accounts. During 2014 and the first three months of 2015, we experienced no loss or lack of access to our cash or cash equivalents; however, there can be no assurance that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

The following table presents information on our lines of credit for the periods indicated. All of our lines of credit are guaranteed by us and secured by mortgages on certain real estate assets.

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	As of June 30, 2015						
Line of Credit	Amount Drawn (1)	Capacity (1)	Interest Rate	Origination Date	Maturity	Basis Rate (2)	Notes
Credit Line 1	$	$ 85,000	1.8%	6/4/2010	6/3/2016	LIBOR plus 1.7%	(3)
Credit Line 2		50,000	1.9%	11/16/2010	2/13/2017	LIBOR plus 1.8%	(4)
Credit Line 3		80,000	1.9%	4/29/2011	11/18/2016	LIBOR plus 1.7%	(4)
Credit Line 4		50,000	1.9%	9/29/2014	9/29/2017	LIBOR plus 1.7%	(4)
	$	$ 265,000					

(1) Amounts in thousands
(2) 30-day USD LIBOR
(3) One two-year extension available
(4) Two one-year extensions available

As of June 30, 2015, we had $2,298,142 face value of debt, resulting in a debt to total enterprise value ratio of 22.3%. As of June 30, 2015, the ratio of total fixed-rate debt and other instruments to total debt was 68.0% (including $997,410 on which we have interest rate swaps that have been included as fixed-rate debt). The weighted average interest rate of the total of fixed- and variable-rate debt at June 30, 2015 was 3.2%. Certain of our real estate assets are pledged as collateral for our debt. We are subject to certain restrictive covenants relating to our outstanding debt. We were in compliance with all financial covenants at June 30, 2015.

We expect to fund our short-term liquidity requirements, including operating expenses, recurring capital expenditures, dividends to stockholders, distributions to holders of Operating Partnership units and interest on our outstanding indebtedness, out of our operating cash flow, cash on hand and borrowings under our lines of credit. In addition, we are pursuing additional term loans secured by unencumbered stores.

Our liquidity needs consist primarily of cash distributions to stockholders, store acquisitions, principal payments under our borrowings and non-recurring capital expenditures. We may from time to time seek to repurchase our outstanding debt, shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. In addition, we evaluate, on an ongoing basis, the merits of strategic acquisitions and other relationships, which may require us to raise additional funds. We do not expect that our operating cash flow or cash balances will be sufficient to fund our liquidity needs and instead expect to fund such needs out of additional borrowings of secured or unsecured indebtedness, joint ventures with third parties, and from the proceeds of public and private offerings of equity and debt. Additional capital may not be available on terms favorable to us or at all. Any additional issuance of equity or equity-linked securities may result in dilution to our stockholders. In addition, any new securities we issue could have rights, preferences and privileges senior to holders of our common stock. We may also use Operating Partnership units as currency to fund acquisitions from self-storage owners who desire tax-deferral in their exiting transactions.

OFF-BALANCE SHEET ARRANGEMENTS

Except as disclosed in the notes to our consolidated financial statements of our most recently filed Annual Report on Form 10-K, we do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purposes entities, which typically are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further,

except as disclosed in the notes to our condensed consolidated financial statements, we have not guaranteed any obligations of unconsolidated entities, nor do we have any commitments or intent to provide funding to any such entities. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

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CONTRACTUAL OBLIGATIONS

The following table presents information on future payments due by period as of June 30, 2015:

	Payments due by Period:				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Operating leases	$ 80,092	$ 5,486	$ 8,638	$ 5,701	$ 60,267
Notes payable, notes payable to trusts and lines of credit					
Interest	359,194	72,864	111,727	67,020	107,583
Principal	2,298,142	74,907	649,493	1,002,294	571,448
Total contractual obligations	$ 2,737,428	$ 153,257	$ 769,858	$ 1,075,015	$ 739,298

The operating leases above include minimum future lease payments on leases for 18 of our operating stores as well as leases of our corporate offices. Two ground leases include additional contingent rental payments based on the level of revenue achieved at the store.

As of June 30, 2015, the weighted average interest rate for all fixed-rate loans was 3.8%, and the weighted-average interest rate for all variable-rate loans was 2.0%.

FINANCING STRATEGY

We will continue to employ leverage in our capital structure in amounts reviewed from time to time by our board of directors. Although our board of directors has not adopted a policy that limits the total amount of indebtedness that we may incur, we will consider a number of factors in evaluating our level of indebtedness from time to time, as well as the amount of such indebtedness that will be either fixed- or variable-rate. In making financing decisions, we will consider factors including but not limited to:

- the interest rate of the proposed financing;
- the extent to which the financing impacts flexibility in managing our stores;
- prepayment penalties and restrictions on refinancing;
- the purchase price of stores acquired with debt financing;
- long-term objectives with respect to the financing;

target investment returns;

the ability of particular stores, and our company as a whole, to generate cash flow sufficient to cover expected debt service payments;

overall level of consolidated indebtedness;

timing of debt and lease maturities;

provisions that require recourse and cross-collateralization;

corporate credit ratios including debt service coverage, debt to total capitalization and debt to undepreciated assets; and

the overall ratio of fixed- and variable-rate debt.

Our indebtedness may be recourse, non-recourse or cross-collateralized. If the indebtedness is non-recourse, the collateral will be limited to the particular stores to which the indebtedness relates. In addition, we may invest in stores subject to existing loans collateralized by mortgages or similar liens on our stores, or we may refinance stores acquired on a leveraged basis. We may use the proceeds from any borrowings to refinance existing indebtedness, to refinance investments, including the redevelopment of existing stores, for general working capital or to purchase additional interests in partnerships or joint ventures or for other purposes when we believe it is advisable.

SEASONALITY

The self-storage business is subject to seasonal fluctuations. A greater portion of revenues and profits are realized from May through September. Historically, our highest level of occupancy has been at the end of July, while our lowest level of occupancy has been in late February and early March. Results for any quarter may not be indicative of the results that may be achieved for the full fiscal year.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Market Risk

Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Our future income, cash flows and fair values of financial instruments are dependent upon prevailing market interest rates.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

As of June 30, 2015, we had $2,298,142 in total face value of debt, of which $736,378 was subject to variable interest rates (excluding debt with interest rate swaps). If LIBOR were to increase or decrease by 100 basis points, the increase or decrease in interest expense on the variable-rate debt (excluding variable-rate debt with interest rate floors) would increase or decrease future earnings and cash flows by $7,081 annually.

Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

The fair values of our 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

The fair value of our note receivable from Preferred Operating Partnership unit holders was based on the discounted estimated future cash flows of the note (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 our 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 our exchangeable senior notes was estimated using an average market price for similar securities obtained from a third party.

ITEM 4. CONTROLS AND PROCEDURES

(1) Disclosure Controls and Procedures

We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports we file pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act, are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of disclosure controls and procedures in Rule 13a-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide a reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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We have a disclosure committee that is responsible for considering the materiality of information and determining our disclosure obligations a timely basis. The disclosure committee meets quarterly and reports directly to our Chief Executive Officer and Chief Financial Officer.

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

(2) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during our most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various litigation and legal proceedings in the ordinary course of business. We are not a party to any material litigation or legal proceedings, or to the best of our knowledge, any threatened litigation or legal proceedings which, in the opinion of management, are expected to have a material adverse effect on our financial condition or results of operations either individually or in the aggregate.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our 2014 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 15, 2015, we entered into a contribution agreement to acquire 22 stores located in Arizona and Texas (the Properties). The Properties include approximately 1.73 million square feet of net rentable space in approximately 13,500 self storage units, which were approximately 81.7% occupied as of June 30, 2015. The aggregate consideration paid to acquire the Properties is valued at approximately $177.7 million, excluding transaction costs, including the issuance by the Operating Partnership to the contributors of 1,504,277 OP Units, with a total value of $101.7 million.

On June 18, 2015, our Operating Partnership issued 71,054 OP Units in connection with the acquisition of a store located in Florida. The store was acquired in exchange for the OP Units, valued at $4.8 million, and approximately $12.7 million of cash.

The terms of the OP Units are governed by the Operating Partnership s Fourth Amended and Restated Agreement of Limited Partnership. The OP Units will be redeemable, at the option of the holders following the expiration of a

lock-up period commencing on the date of issuance and ending on August 15, 2016, which redemption obligation may be satisfied, at our option, in cash or shares of our common stock.

The OP Units were issued in private placements in reliance on Section 4(a)(2) of the Securities Act, and the rules and regulations promulgated thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

The information set forth in Item 2 of Part II of this Quarterly Report on Form 10-Q is incorporated by reference herein.

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ITEM 6. EXHIBITS

2.1	Agreement and Plan of Merger, dated as of June 15, 2015, among Extra Space Storage Inc., Extra Space Storage LP, Edgewater REIT Acquisition (MD) LLC, Edgewater Partnership Acquisition (DE) LLC, SmartStop Self Storage, Inc. and SmartStop Self Storage Operating Partnership, L.P. (incorporated by reference to Exhibit 2.1 of Form 8-K filed on June 15, 2015).
2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of July 16, 2015, among Extra Space Storage Inc., Extra Space Storage LP, Edgewater REIT Acquisition (MD) LLC, Edgewater Partnership Acquisition (DE) LLC, SmartStop Self Storage, Inc. and SmartStop Self Storage Operating Partnership, L.P. (incorporated by reference to Exhibit 2.1 of Form 8-K filed on July 16, 2015).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Extra Space Storage Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 are formatted in XBRL (eXtensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations, (3) the Condensed Consolidated Statements of Comprehensive Income (4) the Condensed Consolidated Statement of Noncontrolling Interests and Equity, (5) the Condensed Consolidated Statements of Cash Flows and (6) notes to these financial statements.

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SIGNATURES

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

EXTRA SPACE STORAGE INC.
Registrant

Date: August 10, 2015

/s/ Spencer F. Kirk
Spencer F. Kirk
Chief Executive Officer

(Principal Executive Officer)

Date: August 10, 2015

/s/ P. Scott Stubbs
P. Scott Stubbs
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)