

CubeSmart
Form 10-Q
November 05, 2014
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2014.

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:

001-32324 (CubeSmart)

000-54662 (CubeSmart, L.P.)

CUBESMART

CUBESMART, L.P.

(Exact Name of Registrant as Specified in its Charter)

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

20-1024732
34-1837021

Edgar Filing: CubeSmart - Form 10-Q

(State or Other Jurisdiction of
Incorporation or Organization)

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

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

19355
(Zip Code)

(610) 535-5000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

CubeSmart Yes No £
CubeSmart, L.P. Yes No £

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

CubeSmart Yes No £
CubeSmart, L.P. Yes No £

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

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

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

CubeSmart Yes £ No R
CubeSmart, L.P. Yes £ No R

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

Edgar Filing: CubeSmart - Form 10-Q

Class	Outstanding at October 31, 2014
Common shares, \$0.01 par value per share, of CubeSmart	162,868,057

Table of Contents

EXPLANATORY NOTE

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

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

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

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

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

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

Edgar Filing: CubeSmart - Form 10-Q

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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

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

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

Table of Contents

TABLE OF CONTENTS

Part I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	46
<u>Item 4. Controls and Procedures</u>	46

Part II. OTHER INFORMATION

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 6. Exhibits</u>	49

Filing Format

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

Table of Contents

Forward-Looking Statements

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

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

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

Edgar Filing: CubeSmart - Form 10-Q

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

Given these uncertainties and the other risks identified elsewhere in this Report, we caution readers not to place undue reliance on forward-looking statements. We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise except as may be required by securities laws. Because of the factors referred to above, the future events discussed in or incorporated by reference in this Report may not occur and actual results, performance or achievement could differ materially from that anticipated or implied in the forward-looking statements.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CUBESMART AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

(unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Storage facilities	\$ 2,823,186	\$ 2,553,706
Less: Accumulated depreciation	(466,516)	(398,536)
Storage facilities, net (including VIE assets of \$40,726 and \$34,559, respectively)	2,356,670	2,155,170
Cash and cash equivalents	31,264	3,176
Restricted cash	4,254	4,025
Loan procurement costs, net of amortization	11,194	12,687
Investment in real estate venture, at equity	98,321	156,310
Other assets, net	43,263	27,256
Total assets	\$ 2,544,966	\$ 2,358,624
LIABILITIES AND EQUITY		
Unsecured senior notes	\$ 500,000	\$ 500,000
Revolving credit facility	-	38,600
Unsecured term loans	400,000	400,000
Mortgage loans and notes payable	215,849	200,218
Accounts payable, accrued expenses and other liabilities	63,139	57,599
Distributions payable	21,799	19,955
Deferred revenue	14,491	12,394
Security deposits	394	376
Total liabilities	1,215,672	1,229,142
Noncontrolling interests in the Operating Partnership	40,590	36,275
Commitments and contingencies		
Equity		
7.75% Series A Preferred shares \$.01 par value, 3,220,000 shares authorized, 3,100,000 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	31	31
Common shares \$.01 par value, 200,000,000 shares authorized, 153,233,858 and 139,328,366 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	1,532	1,393
Additional paid in capital	1,781,518	1,542,703
Accumulated other comprehensive loss	(8,558)	(11,014)
Accumulated deficit	(487,357)	(440,837)
Total CubeSmart shareholders' equity	1,287,166	1,092,276
Noncontrolling interests in subsidiaries	1,538	931

Edgar Filing: CubeSmart - Form 10-Q

Total equity		1,288,704	1,093,207
Total liabilities and equity	\$	2,544,966	\$ 2,358,624

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUBESMART AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
REVENUES				
Rental income	\$ 85,392	\$ 72,744	\$ 242,177	\$ 207,735
Other property related income	10,142	8,558	30,088	24,150
Property management fee income	1,558	1,185	4,431	3,547
Total revenues	97,092	82,487	276,696	235,432
OPERATING EXPENSES				
Property operating expenses	33,622	30,011	97,992	87,640
Depreciation and amortization	31,622	28,448	90,224	85,824
General and administrative	7,464	7,326	21,092	22,454
Acquisition related costs	1,258	470	3,658	2,233
Total operating expenses	73,966	66,255	212,966	198,151
OPERATING INCOME	23,126	16,232	63,730	37,281
OTHER INCOME (EXPENSE)				
Interest:				
Interest expense on loans	(11,772)	(9,968)	(35,670)	(30,828)
Loan procurement amortization expense	(566)	(536)	(1,650)	(1,509)
Equity in losses of real estate venture	(1,860)	-	(4,958)	-
Gain from sale of real estate	-	-	475	-
Other	(337)	(22)	(1,103)	(282)
Total other expense	(14,535)	(10,526)	(42,906)	(32,619)
INCOME FROM CONTINUING OPERATIONS	8,591	5,706	20,824	4,662
DISCONTINUED OPERATIONS				
Income from discontinued operations	-	1,585	336	4,541
Gain from disposition of discontinued operations	-	9,310	-	9,538
Total discontinued operations	-	10,895	336	14,079
NET INCOME	8,591	16,601	21,160	18,741
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership	(106)	(257)	(250)	(240)
Noncontrolling interests in subsidiaries	(5)	(2)	(14)	(1)
NET INCOME ATTRIBUTABLE TO THE COMPANY	8,480	16,342	20,896	18,500
Distribution to preferred shareholders	(1,502)	(1,502)	(4,506)	(4,506)
NET INCOME ATTRIBUTABLE TO THE COMPANY'S COMMON SHAREHOLDERS	\$ 6,978	\$ 14,840	\$ 16,390	\$ 13,994
Basic earnings per share from continuing operations attributable to common shareholders				
	\$ 0.05	\$ 0.03	\$ 0.11	\$ -
Basic earnings per share from discontinued operations attributable to common shareholders				
	\$ -	\$ 0.08	\$ -	\$ 0.10
Basic earnings per share attributable to common shareholders				
	\$ 0.05	\$ 0.11	\$ 0.11	\$ 0.10
Diluted earnings per share from continuing operations attributable to common shareholders				
	\$ 0.05	\$ 0.03	\$ 0.11	\$ -
	\$ -	\$ 0.08	\$ -	\$ 0.10

Edgar Filing: CubeSmart - Form 10-Q

Diluted earnings per share from discontinued operations attributable to common shareholders				
Diluted earnings per share attributable to common shareholders	\$	0.05	\$	0.11
			\$	0.11
			\$	0.10
Weighted-average basic shares outstanding		149,758		135,365
Weighted-average diluted shares outstanding		152,006		138,106
				144,919
				134,007
				147,082
				136,643
AMOUNTS ATTRIBUTABLE TO THE COMPANY'S COMMON SHAREHOLDERS:				
Income from continuing operations	\$	6,978	\$	4,130
Total discontinued operations		-		10,710
Net income	\$	6,978	\$	14,840
			\$	16,059
			\$	331
			\$	16,390
			\$	154
				13,840
				13,994

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NET INCOME	\$ 8,591	\$ 16,601	\$ 21,160	\$ 18,741
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gains (losses) on interest rate swap	982	(2,700)	(2,249)	2,586
Reclassification of realized losses on interest rate swaps	1,616	1,582	4,793	4,667
Unrealized (loss) gain on foreign currency translation	(483)	297	(55)	66
OTHER COMPREHENSIVE INCOME (LOSS)	2,115	(821)	2,489	7,319
COMPREHENSIVE INCOME	10,706	15,780	23,649	26,060
Comprehensive income attributable to noncontrolling interests in the Operating Partnership	(138)	(243)	(285)	(366)
Comprehensive loss (income) attributable to noncontrolling interests in subsidiaries	4	(27)	(12)	(24)
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	\$ 10,572	\$ 15,510	\$ 23,352	\$ 25,670

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

(unaudited)

	Common Shares Number	Common Shares Amount	Preferred Shares Number	Preferred Shares Amount	Additional Paid in Capital	Accumulated (Loss) Income	Other Accumulated Deficit	Total Shareholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity	Noncontrolling Interests in the Operating Partnership
Balance at December 31, 2013	139,328	\$ 1,393	3,100	\$ 31	\$ 1,542,703	\$ (11,014)	\$ (440,837)	\$ 1,092,276	\$ 931	\$ 1,093,207	\$ 36,275
Contributions from noncontrolling interests in subsidiaries									\$ 595	595	
Issuance of common shares	13,181	132			235,829			235,961		235,961	
Issuance of restricted shares	424	4						4		4	
Conversion from units to shares	18	-			308			308		308	(308)
Exercise of stock options	283	3			2,263			2,266		2,266	
Amortization of restricted shares					(229)			(229)		(229)	
Share compensation expense					644			644		644	
Adjustment for noncontrolling interests in the Operating Partnership							(5,218)	(5,218)		(5,218)	5,218
Net income							20,896	20,896	14	20,910	250
Other comprehensive gain (loss):											
Unrealized gains on interest rate swaps						2,506		2,506		2,506	38
Unrealized loss on foreign currency translation						(50)		(50)	(2)	(52)	(3)
Preferred share distributions							(4,506)	(4,506)		(4,506)	
Common share distributions							(57,692)	(57,692)		(57,692)	(880)
Balance at September 30, 2014	153,234	\$ 1,532	3,100	\$ 31	\$ 1,781,518	\$ (8,558)	\$ (487,357)	\$ 1,287,166	\$ 1,538	\$ 1,288,704	\$ 40,590

Edgar Filing: CubeSmart - Form 10-Q

	Common Shares		Preferred Shares		Additional	Accumulated	Other	Total	Noncontrolling	Total	Noncontrolling
	Number	Amount	Number	Amount	Paid in	Comprehensive	Accumulated	Shareholders	Interests in	Equity	Partnership
					Capital	(Loss) Income	Deficit	Equity	Subsidiaries	Equity	Operating
Balance at December 31, 2012	131,795	\$ 1,318	3,100	\$ 31	\$ 1,418,463	\$ (19,796)	\$ (410,225)	\$ 989,791	\$ 118	\$ 989,909	\$ 47,990
Issuance of common shares	3,099	31			52,467			52,498		52,498	
Issuance of restricted shares	222	2						2		2	
Conversion from units to shares	1,013	10			14,591			14,601		14,601	(14,601)
Exercise of stock options	357	4			2,483			2,487		2,487	
Amortization of restricted shares					3,397			3,397		3,397	
Share compensation expense					654			654		654	
Adjustment for noncontrolling interests in the Operating Partnership							(7,686)	(7,686)		(7,686)	7,686
Net income							18,500	18,500	1	18,501	240
Other comprehensive gain:											
Unrealized gains on interest rate swaps						7,128		7,128		7,128	125
Unrealized gain on foreign currency translation						42		42	23	65	1
Preferred share distributions							(4,506)	(4,506)		(4,506)	
Common share distributions							(44,602)	(44,602)		(44,602)	(753)
Balance at September 30, 2013	136,486	\$ 1,365	3,100	\$ 31	\$ 1,492,055	\$ (12,626)	\$ (448,519)	\$ 1,032,306	\$ 142	\$ 1,032,448	\$ 40,688

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUBESMART AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Nine Months Ended September 30,	
	2014	2013
Operating Activities		
Net income	\$ 21,160	\$ 18,741
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	91,874	89,813
Gain from sale of real estate	(475)	(9,538)
Equity compensation expense	415	4,051
Accretion of fair market value adjustment of debt	(1,247)	(752)
Equity in losses of real estate venture	4,958	-
Changes in other operating accounts:		
Other assets	(936)	(1,760)
Restricted cash	(293)	518
Accounts payable and accrued expenses	2,531	1,551
Other liabilities	945	1,267
Net cash provided by operating activities	\$ 118,932	\$ 103,891
Investing Activities		
Acquisitions of storage facilities	\$ (255,865)	\$ (133,043)
Additions and improvements to storage facilities	(12,870)	(13,697)
Development costs	(17,027)	(25,649)
Cash contributed to real estate venture	(2,350)	-
Cash distributed from real estate venture	55,381	-
Proceeds from sale of real estate, net	13,475	35,600
Proceeds from notes receivable	-	5,192
Change in restricted cash	283	1,324
Net cash used in investing activities	\$ (218,973)	\$ (130,273)
Financing Activities		
Proceeds from:		
Revolving credit facility	\$ 578,000	\$ 350,600
Principal payments on:		
Revolving credit facility	(616,600)	(307,300)
Mortgage loans and notes payable	(10,589)	(21,852)
Loan procurement costs	(274)	(2,141)
Proceeds from issuance of common shares	235,965	52,500
Exercise of stock options	2,266	2,487
Contributions from noncontrolling interests in subsidiaries	595	-
Distributions paid to common shareholders	(55,844)	(44,093)
Distributions paid to preferred shareholders	(4,506)	(4,506)
Distributions paid to noncontrolling interests in Operating Partnership	(884)	(868)
Net cash provided by financing activities	\$ 128,129	\$ 24,827
Change in cash and cash equivalents	28,088	(1,555)
Cash and cash equivalents at beginning of period	3,176	4,495
Cash and cash equivalents at end of period	\$ 31,264	\$ 2,940

Supplemental Cash Flow and Noncash Information

Edgar Filing: CubeSmart - Form 10-Q

Cash paid for interest, net of interest capitalized	\$	38,240	\$	36,150
Supplemental disclosure of noncash activities:				
Accretion of liability	\$	5,357	\$	-
Derivative valuation adjustment	\$	2,544	\$	7,253
Foreign currency translation adjustment	\$	(55)	\$	66
Mortgage loan assumption - acquisition of storage facilities	\$	27,467	\$	-

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUBESMART, L.P. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands)****(unaudited)**

	September 30, 2014	December 31, 2013
ASSETS		
Storage facilities	\$ 2,823,186	\$ 2,553,706
Less: Accumulated depreciation	(466,516)	(398,536)
Storage facilities, net (including VIE assets of \$40,726 and \$34,559, respectively)	2,356,670	2,155,170
Cash and cash equivalents	31,264	3,176
Restricted cash	4,254	4,025
Loan procurement costs, net of amortization	11,194	12,687
Investment in real estate venture, at equity	98,321	156,310
Other assets, net	43,263	27,256
Total assets	\$ 2,544,966	\$ 2,358,624
LIABILITIES AND CAPITAL		
Unsecured senior notes	\$ 500,000	\$ 500,000
Revolving credit facility	-	38,600
Unsecured term loan	400,000	400,000
Mortgage loans and notes payable	215,849	200,218
Accounts payable, accrued expenses and other liabilities	63,139	57,599
Distributions payable	21,799	19,955
Deferred revenue	14,491	12,394
Security deposits	394	376
Total liabilities	1,215,672	1,229,142
Operating Partnership interests of third parties	40,590	36,275
Commitments and contingencies		
Capital		
Operating Partner	1,295,724	1,103,290
Accumulated other comprehensive loss	(8,558)	(11,014)
Total CubeSmart, L.P. capital	1,287,166	1,092,276
Noncontrolling interests in subsidiaries	1,538	931
Total capital	1,288,704	1,093,207
Total liabilities and capital	\$ 2,544,966	\$ 2,358,624

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUBESMART, L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per common unit data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
REVENUES				
Rental income	\$ 85,392	\$ 72,744	\$ 242,177	\$ 207,735
Other property related income	10,142	8,558	30,088	24,150
Property management fee income	1,558	1,185	4,431	3,547
Total revenues	97,092	82,487	276,696	235,432
OPERATING EXPENSES				
Property operating expenses	33,622	30,011	97,992	87,640
Depreciation and amortization	31,622	28,448	90,224	85,824
General and administrative	7,464	7,326	21,092	22,454
Acquisition related costs	1,258	470	3,658	2,233
Total operating expenses	73,966	66,255	212,966	198,151
OPERATING INCOME	23,126	16,232	63,730	37,281
OTHER INCOME (EXPENSE)				
Interest:				
Interest expense on loans	(11,772)	(9,968)	(35,670)	(30,828)
Loan procurement amortization expense	(566)	(536)	(1,650)	(1,509)
Equity in losses of real estate venture	(1,860)	-	(4,958)	-
Gain from sale of real estate	-	-	475	-
Other	(337)	(22)	(1,103)	(282)
Total other expense	(14,535)	(10,526)	(42,906)	(32,619)
INCOME FROM CONTINUING OPERATIONS	8,591	5,706	20,824	4,662
DISCONTINUED OPERATIONS				
Income from discontinued operations	-	1,585	336	4,541
Gain from disposition of discontinued operations	-	9,310	-	9,538
Total discontinued operations	-	10,895	336	14,079
NET INCOME	8,591	16,601	21,160	18,741
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in subsidiaries	(5)	(2)	(14)	(1)
NET INCOME ATTRIBUTABLE TO CUBESMART L.P.	8,586	16,599	21,146	18,740
Operating Partnership interests of third parties	(106)	(257)	(250)	(240)
NET INCOME ATTRIBUTABLE TO OPERATING PARTNER	8,480	16,342	20,896	18,500
Distribution to preferred unitholders	(1,502)	(1,502)	(4,506)	(4,506)
NET INCOME ATTRIBUTABLE TO COMMON UNITHOLDERS	\$ 6,978	\$ 14,840	\$ 16,390	\$ 13,994
Basic earnings per share from continuing operations attributable to common unitholders				
	\$ 0.05	\$ 0.03	\$ 0.11	\$ -
Basic earnings per share from discontinued operations attributable to common unitholders				
	\$ -	\$ 0.08	\$ -	\$ 0.10
Basic earnings per share attributable to common unitholders				
	\$ 0.05	\$ 0.11	\$ 0.11	\$ 0.10
	\$ 0.05	\$ 0.03	\$ 0.11	\$ -

Edgar Filing: CubeSmart - Form 10-Q

Diluted earnings per share from continuing operations attributable to common unitholders				
Diluted earnings per share from discontinued operations attributable to common unitholders	\$	-	\$	0.08
			\$	-
				\$
				0.10
Diluted earnings per share attributable to common unitholders	\$	0.05	\$	0.11
			\$	0.11
				\$
				0.10
Weighted-average basic units outstanding		149,758		135,365
Weighted-average diluted units outstanding		152,006		138,106
				144,919
				134,007
				147,082
				136,643
AMOUNTS ATTRIBUTABLE TO COMMON UNITHOLDERS				
Income from continuing operations	\$	6,978	\$	4,130
Total discontinued operations		-		10,710
Net income	\$	6,978	\$	14,840
			\$	16,059
				\$
				154
				13,840
				331
				13,994

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NET INCOME	\$ 8,591	\$ 16,601	\$ 21,160	\$ 18,741
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gains (losses) on interest rate swap	982	(2,700)	(2,249)	2,586
Reclassification of realized losses on interest rate swaps	1,616	1,582	4,793	4,667
Unrealized (loss) gain on foreign currency translation	(483)	297	(55)	66
OTHER COMPREHENSIVE INCOME (LOSS)	2,115	(821)	2,489	7,319
COMPREHENSIVE INCOME	10,706	15,780	23,649	26,060
Comprehensive income attributable to Operating Partnership interests of third parties	(138)	(243)	(285)	(366)
Comprehensive loss (income) attributable to noncontrolling interests in subsidiaries	4	(27)	(12)	(24)
COMPREHENSIVE INCOME ATTRIBUTABLE TO OPERATING PARTNER	\$ 10,572	\$ 15,510	\$ 23,352	\$ 25,670

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITAL

(in thousands)

(unaudited)

	Number of OP Units Outstanding		Operating Partner	Accumulated Other Comprehensive (Loss) Income	CubeSmart L.P. Capital	Noncontrolling Interests in Subsidiaries	Total Capital	Operating Partnership Interests of Third Parties
	Common	Preferred						
Balance at December 31, 2013	139,328	3,100	\$ 1,103,290	\$ (11,014)	\$ 1,092,276	\$ 931	\$ 1,093,207	\$ 36,275
Contributions from noncontrolling interests in subsidiaries						\$ 595	595	
Issuance of common OP units	13,181		235,961		235,961		235,961	
Issuance of restricted OP units	424		4		4		4	
Conversion from units to shares	18		308		308		308	(308)
Exercise of OP unit options	283		2,266		2,266		2,266	
Amortization of restricted OP units			(229)		(229)		(229)	
OP unit compensation expense			644		644		644	
Adjustment for Operating Partnership interests of third parties			(5,218)		(5,218)		(5,218)	5,218
Net income			20,896		20,896	14	20,910	250
Other comprehensive gain (loss):								
Unrealized gains on interest rate swaps				2,506	2,506		2,506	38
Unrealized loss on foreign currency translation				(50)	(50)	(2)	(52)	(3)
Preferred OP unit distributions			(4,506)		(4,506)		(4,506)	
Common OP unit distributions			(57,692)		(57,692)		(57,692)	(880)
Balance at September 30, 2014	153,234	3,100	\$ 1,295,724	\$ (8,558)	\$ 1,287,166	\$ 1,538	\$ 1,288,704	\$ 40,590

	Number of OP Units Outstanding		Operating Partner	Accumulated Other Comprehensive (Loss) Income	CubeSmart L.P. Capital	Noncontrolling Interests in Subsidiaries	Total Capital	Operating Partnership Interests of Third Parties
	Common	Preferred						
Balance at December 31, 2012	131,795 3,099	3,100	\$ 1,009,587 52,498	\$ (19,796)	\$ 989,791 52,498	\$ 118	\$ 989,909 52,498	\$ 47,990

Edgar Filing: CubeSmart - Form 10-Q

Issuance of common OP units								
Issuance of restricted OP units	222		2		2		2	
Conversion from units to shares	1,013		14,601		14,601		14,601	(14,601)
Exercise of OP unit options	357		2,487		2,487		2,487	
Amortization of restricted OP units			3,397		3,397		3,397	
OP unit compensation expense			654		654		654	
Adjustment for Operating Partnership interests of third parties			(7,686)		(7,686)		(7,686)	7,686
Net income			18,500		18,500	1	18,501	240
Other comprehensive gain:								
Unrealized gains on interest rate swaps				7,128	7,128		7,128	125
Unrealized gain on foreign currency translation				42	42	23	65	1
Preferred OP unit distributions			(4,506)		(4,506)		(4,506)	
Common OP unit distributions			(44,602)		(44,602)		(44,602)	(753)
Balance at September 30, 2013	136,486	3,100	\$ 1,044,932	\$ (12,626)	\$ 1,032,306	\$ 142	\$ 1,032,448	\$ 40,688

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUBESMART, L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Nine Months Ended September 30,	
	2014	2013
Operating Activities		
Net income	\$ 21,160	\$ 18,741
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	91,874	89,813
Gain from sale of real estate	(475)	(9,538)
Equity compensation expense	415	4,051
Accretion of fair market value adjustment of debt	(1,247)	(752)
Equity in losses of real estate venture	4,958	-
Changes in other operating accounts:		
Other assets	(936)	(1,760)
Restricted cash	(293)	518
Accounts payable and accrued expenses	2,531	1,551
Other liabilities	945	1,267
Net cash provided by operating activities	\$ 118,932	\$ 103,891
Investing Activities		
Acquisitions of storage facilities	\$ (255,865)	\$ (133,043)
Additions and improvements to storage facilities	(12,870)	(13,697)
Development costs	(17,027)	(25,649)
Cash contributed to real estate venture	(2,350)	-
Cash distributed from real estate venture	55,381	-
Proceeds from sale of real estate, net	13,475	35,600
Proceeds from notes receivable	-	5,192

Edgar Filing: CubeSmart - Form 10-Q

Change in restricted cash		283		1,324
Net cash used in by investing activities	\$	(218,973)	\$	(130,273)
Financing Activities				
Proceeds from:				
Revolving credit facility	\$	578,000	\$	350,600
Principal payments on:				
Revolving credit facility		(616,600)		(307,300)
Mortgage loans and notes payable		(10,589)		(21,852)
Loan procurement costs		(274)		(2,141)
Proceeds from issuance of common OP units		235,965		52,500
Exercise of OP unit options		2,266		2,487
Contributions from noncontrolling interests in subsidiaries		595		-
Distributions paid to common unitholders		(56,728)		(44,961)
Distributions paid to preferred unitholders		(4,506)		(4,506)
Net cash provided by financing activities	\$	128,129	\$	24,827
Change in cash and cash equivalents		28,088		(1,555)
Cash and cash equivalents at beginning of period		3,176		4,495
Cash and cash equivalents at end of period	\$	31,264	\$	2,940
Supplemental Cash Flow and Noncash Information				
Cash paid for interest, net of interest capitalized	\$	38,240	\$	36,150
Supplemental disclosure of noncash activities:				
Accretion of liability	\$	5,357	\$	-
Derivative valuation adjustment	\$	2,544	\$	7,253
Foreign currency translation adjustment	\$	(55)	\$	66
Mortgage loan assumption - acquisition of storage facilities	\$	27,467	\$	-

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART AND CUBESMART, L.P.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

CubeSmart (the Parent Company) operates as a self-managed and self-administered real estate investment trust (REIT) with its operations conducted solely through CubeSmart, L.P. and its subsidiaries. CubeSmart, L.P., a Delaware limited partnership (the Operating Partnership), operates through an umbrella partnership structure, with the Parent Company, a Maryland REIT, as its sole general partner. In the notes to the consolidated financial statements, we use the terms the Company, we or our to refer to the Parent Company and the Operating Partnership together, unless the context indicates otherwise. As of September 30, 2014, the Company owned self-storage facilities located in 21 states throughout the United States and the District of Columbia which are presented under one reportable segment: the Company owns, operates, develops, manages and acquires self-storage facilities.

As of September 30, 2014, the Parent Company owned approximately 98.5% of the partnership interests (OP Units) of the Operating Partnership. The remaining OP Units, consisting exclusively of limited partner interests, are held by persons who contributed their interests in facilities to the Operating Partnership in exchange for OP Units. Under the partnership agreement, these persons have the right to tender their OP Units for redemption to the Operating Partnership at any time for cash equal to the fair value of an equivalent number of common shares of the Parent Company. In lieu of delivering cash, however, the Parent Company, as the Operating Partnership's general partner, may, at its option, choose to acquire any OP Units so tendered by issuing common shares in exchange for the tendered OP Units. If the Parent Company so chooses, its common shares will be exchanged for OP Units on a one-for-one basis. This one-for-one exchange ratio is subject to adjustment to prevent dilution. With each such exchange or redemption, the Parent Company's percentage ownership in the Operating Partnership will increase. In addition, whenever the Parent Company issues common or other classes of its shares, it contributes the net proceeds it receives from the issuance to the Operating Partnership and the Operating Partnership issues to the Parent Company an equal number of OP Units or other partnership interests having preferences and rights that mirror the preferences and rights of the shares issued. This structure is commonly referred to as an umbrella partnership REIT or UPREIT.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC regarding interim financial reporting and, in the opinion of each of the Parent Company's and Operating Partnership's respective management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows for each respective company for the interim periods presented in accordance with generally accepted accounting principles in the United States (GAAP). Accordingly, readers of this Quarterly Report on Form 10-Q should refer to the Parent Company's and the Operating Partnership's audited financial statements prepared in accordance with GAAP, and the related notes thereto, for the year ended December 31, 2013, which are included in the Parent Company's and the Operating Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The results of operations for the three and nine months ended September 30, 2014 and 2013 are not necessarily indicative of the results of operations to be expected for any future period or the full year.

Edgar Filing: CubeSmart - Form 10-Q

For the three and nine months ended September 30, 2013, certain amounts have been reclassified to conform to current period presentation.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued an update to the accounting standard for the reporting of discontinued operations. The update redefines discontinued operations, changing the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements.

Table of Contents

This amendment becomes effective for annual periods beginning on or after December 15, 2014, and interim periods beginning on or after December 15, 2015; however, early adoption is permitted. The Company elected to adopt this guidance in 2014 and such adoption did not have a material impact on the Company's consolidated financial position or results of operations. The Company disposed of one asset during the nine months ended September 30, 2014, however the disposal did not meet the criteria for discontinued operations under the new guidance.

In May 2014, the FASB issued Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

3. STORAGE FACILITIES

The book value of the Company's real estate assets is summarized as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Land	\$ 503,529	\$ 465,680
Buildings and improvements	2,095,930	1,888,823
Equipment	185,090	158,000
Construction in progress	38,637	41,203
Storage facilities	2,823,186	2,553,706
Less: Accumulated depreciation	(466,516)	(398,536)
Storage facilities, net	\$ 2,356,670	\$ 2,155,170

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

The following table summarizes the Company's acquisition and disposition activity from the period beginning on January 1, 2013 through September 30, 2014:

Facility/Portfolio	Location	Transaction Date	Number of Facilities	Purchase / Sales Price (in thousands)
<i>2014 Acquisitions:</i>				
Manchester Asset	Manchester, CT	January 2014	1	\$ 4,950
Coconut Creek Asset	Coconut Creek, FL	January 2014	1	14,000
Palm Coast Assets	Palm Coast, FL	January 2014	2	14,450
Fremont Asset	Fremont, CA	January 2014	1	8,300
Temple Hills Asset	Temple Hills, MD	February 2014	1	15,800
Timonium Asset	Timonium, MD	February 2014	1	15,500
Phoenix Asset	Phoenix, AZ	March 2014	1	14,750
Philadelphia Asset	Philadelphia, PA	March 2014	1	7,350
Frisco Asset	Frisco, TX	March 2014	1	8,225
Austin Asset	Austin, TX	April 2014	1	6,450
New York Assets	Brooklyn, NY	April 2014	2	55,000
Lake Worth Asset	Lake Worth, FL	April 2014	1	11,406
Tewksbury Asset	Tewksbury, MA	April 2014	1	11,100
Schererville Asset	Schererville, IN	May 2014	1	8,400
Florida Assets	Multiple locations in FL	June 2014	3	35,000
Florida II Assets	Fort Myers, FL	July 2014	2	15,800
Boston Asset	Boston, MA	September 2014	1	23,100
			22	\$ 269,581
<i>2013 Acquisitions:</i>				
Gilbert Asset	Gilbert, AZ	March 2013	1	\$ 6,900
Evanston Asset	Evanston, IL	May 2013	1	8,300
Delray Beach Asset	Delray Beach, FL	May 2013	1	7,150
Miramar Asset	Miramar, FL	June 2013	1	9,000
Stoneham Asset	Stoneham, MA	June 2013	1	10,600
Maryland/New Jersey Assets	Multiple locations in MD and NJ	June 2013	5	52,400
Staten Island Asset	Staten Island, NY	July 2013	1	13,000
Lewisville Asset	Lewisville, TX	August 2013	1	10,975
Chandler Asset	Chandler, AZ	September 2013	1	10,500
Tempe Asset	Tempe, AZ	September 2013	1	4,300
Clinton Asset	Clinton, MD	November 2013	1	15,375
Katy Asset	Katy, TX	November 2013	1	9,700
Richmond Asset	Richmond, TX	December 2013	1	10,497
Dallas Asset	Dallas, TX	December 2013	1	6,925
Elkridge Asset	Elkridge, MD	December 2013	1	8,200
Fort Lauderdale Asset	Fort Lauderdale, FL	December 2013	1	6,000
			20	\$ 189,822

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

Facility/Portfolio	Location	Transaction Date	Number of Facilities	Purchase / Sales Price (in thousands)
<i>2013 Dispositions:</i>				
Texas/Indiana Assets	Multiple locations in TX and IN	March 2013	5	\$ 11,400
Tennessee Assets	Multiple locations in TN	August 2013	8	25,000
California/Tennessee/Texas Assets	Multiple locations in CA, TN and TX	October/November 2013	22	90,000
			35	\$ 126,400

4. INVESTMENT ACTIVITY

2014 Acquisitions

During the nine months ended September 30, 2014, the Company acquired 22 self-storage facilities located throughout the United States for an aggregate purchase price of approximately \$269.6 million. In connection with these acquisitions, the Company allocated a portion of the purchase price to the intangible value of in-place leases, which aggregated \$18.8 million at the time of such acquisitions and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months and the amortization expense that was recognized during the nine months ended September 30, 2014 was approximately \$8.0 million. In connection with four of the acquired facilities, the Company assumed mortgage debt, and recorded the debt at a fair value of \$27.5 million, which included an outstanding principal balance totaling \$26.0 million and a net premium of \$1.5 million to reflect the estimated fair value of the debt at the time of assumption.

As of September 30, 2014, the Company was under contract and had made deposits of \$9.0 million associated with five facilities under construction for a total purchase price of \$123.2 million. These deposits are reflected in Other assets, net on the Company's consolidated balance sheets. The purchase of these five properties is expected to occur by the fourth quarter of 2015 after the completion of construction and the issuance of a certificate of occupancy. These acquisitions are subject to due diligence and other customary closing conditions and no assurance can be provided that these acquisitions will be completed on the terms described, or at all.

On August 25, 2014, the Operating Partnership entered into an Agreement for Purchase and Sale with certain limited liability companies controlled by HSRE REIT I and HSRE REIT II, each Maryland real estate investment trusts, to acquire (the HSRE Acquisition) 26 self-storage facilities for an aggregate purchase price of \$223.0 million plus customary closing costs. As of September 30, 2014, the Company had made a deposit of \$5.0 million with respect to the HSRE Acquisition, which deposit is reflected in Other assets, net on the Company's consolidated balance sheets. The HSRE Acquisition will close in two tranches. The Company completed its due diligence on all of the facilities and closed on the first tranche of 22 facilities for an aggregate purchase price of \$195.5 million on November 3, 2014. The Company expects to close on the remaining four facilities no later than March 31, 2015.

Development

During 2012, the Company commenced construction of 5 Old Lancaster Road located in Malvern, PA, a suburb of Philadelphia. The mixed-use facility is comprised of rentable storage space and office space for the Company's corporate headquarters. During the fourth quarter of 2013, the Company relocated its corporate headquarters to 5 Old Lancaster Road. Construction was completed on the portion of the building comprised of

Edgar Filing: CubeSmart - Form 10-Q

rentable storage space and the facility opened for operation during the first quarter of 2014. Total costs for this mixed-use project were \$25.1 million at September 30, 2014.

During 2013, the Company entered into contracts for the construction of a self-storage facility located in Bronx, NY. Construction of the facility was substantially completed and the facility opened for operation during the first quarter of 2014.

Table of Contents

Total costs for this project were \$17.2 million at September 30, 2014. These costs are capitalized to building and improvements as well as equipment and are reflected in Storage facilities on the Company's consolidated balance sheets.

During 2013, the Company entered into contracts under newly-formed joint ventures for the construction of three self-storage facilities located in New York and one self-storage facility located in Virginia (see note 12). Construction for all projects is expected to be completed during 2015. At September 30, 2014, development costs for these projects totaled \$30.3 million. These costs are capitalized to construction in progress while the projects are under development and are reflected in Storage facilities on the Company's consolidated balance sheets.

2014 Disposition

On June 30, 2014, the Company sold one asset in London, England owned by USIFB, LLP, a consolidated real estate joint venture in which the Company owns a 97% interest, for an aggregate sales price of £4.1 million (approximately \$7.0 million). The Company received net proceeds of \$7.0 million, a portion of which were used to repay the loan the Company made to the venture, and recorded a gain of \$0.5 million as a result of the transaction.

2013 Acquisitions

During 2013, the Company acquired 20 self-storage facilities located throughout the United States for an aggregate purchase price of approximately \$189.8 million. In connection with these acquisitions, the Company allocated a portion of the purchase price to the intangible value of in-place leases, which aggregated \$13.5 million at the time of such acquisitions and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months and the amortization expense that was recognized during the nine months ended September 30, 2014 was approximately \$7.4 million. In connection with one of the acquired facilities, the Company assumed mortgage debt, and recorded the debt at a fair value of \$8.9 million, which included an outstanding principal balance totaling \$8.5 million and a net premium of \$0.4 million in addition to the face value of the assumed debt to reflect the fair value of the debt at the time of assumption.

The following table summarizes the Company's revenue and earnings associated with the 2014 and 2013 acquisitions from the respective acquisition dates in the period they were acquired, included in the consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Total revenue	\$ 5,832	\$ 2,683	\$ 11,032	\$ 3,472
Net loss	(3,235)	(1,564)	(6,149)	(2,198)

5. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURE

On December 10, 2013, the Company acquired a 50% ownership interest in 35 self-storage facilities located in Texas (34) and North Carolina (1) through a newly-formed joint venture (HHF). HHF paid \$315.7 million for these facilities. The Company and the unaffiliated joint venture partner, collectively the HHF Partners, each contributed cash equal to 50% of the capital required to fund the acquisition. HHF was not consolidated as the entity was not determined to be a VIE and the HHF Partners have equal ownership and voting rights in the entity. The Company accounts for its unconsolidated interest in the real estate venture using the equity method. The Company's investment in HHF is included in Investment in real estate venture, at equity on the Company's consolidated balance sheets and losses attributed to HHF are presented in Equity in losses of real estate venture on the Company's consolidated statements of operations.

Table of Contents

On May 1, 2014, HHF obtained a \$100 million loan secured by the 34 self-storage facilities located in Texas that are owned by the venture. There is no recourse to the Company, subject to customary exceptions to non-recourse provisions. The loan bears interest at 3.59% per annum and matures on April 30, 2021. This financing completed the planned capital structure of HHF and proceeds (net of closing costs) of \$99.2 million were distributed proportionately to the partners.

The amounts reflected in the following table are based on the historical financial information of the real estate venture.

The following is a summary of the financial position of the HHF venture as of September 30, 2014 and December 31, 2013, respectively (in thousands):

	September 30, 2014	December 31, 2013
Assets		
Net property	\$ 294,329	\$ 302,557
Other assets	7,134	11,688
Total assets	\$ 301,463	\$ 314,245
Liabilities and equity		
Other liabilities	\$ 4,821	\$ 1,625
Debt	100,000	-
Equity:		
CubeSmart	98,321	156,310
Joint venture partner	98,321	156,310
Total liabilities and equity	\$ 301,463	\$ 314,245

The following is a summary of results of operations of the real estate venture for the three and nine months ended September 30, 2014 (in thousands):

	Three months ended September 30, 2014	Nine months ended September 30, 2014
Revenue	\$ 6,874	\$ 19,894
Operating expenses	3,108	8,729
Interest expense	941	1,552
Depreciation and amortization	6,544	19,529
Net loss	(3,719)	(9,916)
Company's share of net loss	(1,860)	(4,958)

6. UNSECURED SENIOR NOTES

Edgar Filing: CubeSmart - Form 10-Q

On December 17, 2013, the Operating Partnership issued \$250 million in aggregate principal amount of 4.375% unsecured senior notes due December 15, 2023 (the 2023 Senior Notes). On June 26, 2012, the Operating Partnership issued \$250 million in aggregate principal amount of unsecured senior notes due July 15, 2022 (the 2022 Senior Notes) which bear interest at a rate of 4.80%. The 2023 Senior Notes along with the 2022 Senior Notes are collectively referred to as the Senior Notes. The indenture under which the Senior Notes were issued restricts the ability of the Operating Partnership and its subsidiaries to incur debt unless the Operating Partnership and its consolidated subsidiaries comply with a leverage ratio not to exceed 60% and an interest coverage ratio of more than 1.5:1 after giving effect to the incurrence of the debt. The indenture also restricts the ability of the Operating Partnership and its subsidiaries to incur secured debt unless the Operating Partnership and its consolidated subsidiaries comply with a secured debt leverage ratio not to exceed 40% after giving effect to the incurrence of the debt.

Table of Contents

The indenture also contains other financial and customary covenants, including a covenant not to own unencumbered assets with a value less than 150% of the unsecured indebtedness of the Operating Partnership and its consolidated subsidiaries. As of September 30, 2014, the Operating Partnership was in compliance with all of the financial covenants under the Senior Notes.

7. REVOLVING CREDIT FACILITY AND UNSECURED TERM LOANS

On June 20, 2011, the Company entered into an unsecured term loan agreement (the Term Loan Facility) which consisted of a \$100 million term loan with a five-year maturity (Term Loan A) and a \$100 million term loan with a seven-year maturity (Term Loan B). The Company incurred costs of \$2.1 million in connection with executing the agreement and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheet.

On December 9, 2011, the Company entered into a credit facility (the Credit Facility) comprised of a \$100 million unsecured term loan maturing in December 2014 (Term Loan C); a \$200 million unsecured term loan maturing in March 2017 (Term Loan D); and a \$300 million unsecured revolving facility maturing in December 2015 (Revolver). The Company incurred costs of \$3.4 million in connection with executing the agreement and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheet.

On June 18, 2013, the Company amended both the Term Loan Facility and Credit Facility. With respect to the Term Loan Facility, among other things, the amendment extended the maturity and decreased the pricing of Term Loan A, while Term Loan B remained unchanged by the amendment. On August 5, 2014, the Company further amended the Term Loan Facility (collectively with the amendment on June 18, 2013, the Amendments) to extend the maturity and decrease the pricing of Term Loan B.

Pricing on the Term Loan Facility depends on the Company's unsecured debt credit ratings. At the Company's current Baa2/BBB level, amounts drawn under Term Loan A are priced at 1.30% over LIBOR, with no LIBOR floor, while amounts drawn under Term Loan B are priced at 1.15% over LIBOR, with no LIBOR floor.

	Amount	Maturity Date	Term Loan Facility Prior to Amendments		Maturity Date	Term Loan Facility As Amended	
			LIBOR Spread			LIBOR Spread (1)	
			Baa3/BBB-	Baa2/BBB		Baa3/BBB-	Baa2/BBB
Term Loan A	\$100 million	June 2016	1.85%	1.65%	June 2018	1.50%	1.30%
Term Loan B	\$100 million	June 2018	2.00%	1.80%	January 2020	1.40%	1.15%

(1) On September 25, 2014, the Company's unsecured debt credit rating was upgraded to Baa2 from Baa3 by Moody's Investors Service with a stable outlook. As a result, the LIBOR spreads were reduced, effective October 1, 2014.

With respect to the Credit Facility, among other things, the Amendments extended the maturities of the Revolver and Term Loan D and decreased the pricing of the Revolver, Term Loan C and Term Loan D. Pricing on the Credit Facility depends on the Company's unsecured debt

Edgar Filing: CubeSmart - Form 10-Q

credit ratings. At the Company's current Baa2/BBB level, amounts drawn under the Revolver are priced at 1.30% over LIBOR, inclusive of a facility fee of 0.20%, with no LIBOR floor, while amounts drawn under Term Loan C and Term Loan D are priced at 1.30% over LIBOR, with no LIBOR floor.

	Credit Facility Prior to Amendments				Credit Facility As Amended		
	Amount	Maturity Date	LIBOR Spread		Maturity Date	LIBOR Spread (2)	
			Baa3/BBB-	Baa2/BBB		Baa3/BBB-	Baa2/BBB
Revolver	\$300 million	December 2015	1.80%	1.50%	June 2017	1.60%	1.30%
Term Loan C	\$100 million	December 2014	1.75%	1.45%	December 2014	1.50%	1.30%
(1)	\$200 million						
Term Loan D	million	March 2017	1.75%	1.45%	January 2019	1.50%	1.30%

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

(1) On December 17, 2013, the Company repaid the \$100 million balance under Term Loan C that was scheduled to mature in December 2014.

(2) On September 25, 2014, the Company's unsecured debt credit rating was upgraded to Baa2 from Baa3 by Moody's Investors Service with a stable outlook. As a result, the LIBOR spreads were reduced, effective October 1, 2014.

The Company incurred costs of \$2.1 million in 2013 and \$0.2 million in 2014 in connection with the Amendments and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheet. Unamortized costs, along with costs incurred in connection with the amendments, are amortized as an adjustment to interest expense over the remaining term of the modified facilities. In connection with the repayment of Term Loan C, the Company recognized \$0.4 million related to the write-off of unamortized loan procurement costs associated with the term loan.

As of September 30, 2014, \$200 million of unsecured term loan borrowings were outstanding under the Term Loan Facility, \$200 million of unsecured term loan borrowings were outstanding under the Credit Facility, and \$300 million was available for borrowing on the unsecured revolving portion of the Credit Facility. The available balance under the unsecured revolving portion of the Credit Facility is reduced by an outstanding letter of credit of \$30 thousand. In connection with a portion of the unsecured borrowings, the Company had interest rate swaps as of September 30, 2014 that fix 30-day LIBOR (see note 10). As of September 30, 2014, borrowings under the Credit Facility and Term Loan Facility, as amended and after giving effect to the interest rate swaps, had an effective weighted average interest rate of 3.21%.

The Term Loan Facility and the term loan under the Credit Facility were fully drawn at September 30, 2014 and no further borrowings may be made under the term loans. The Company's ability to borrow under the revolving portion of the Credit Facility is subject to ongoing compliance with certain financial covenants which include:

- Maximum total indebtedness to total asset value of 60.0% at any time;
- Minimum fixed charge coverage ratio of 1.50:1.00; and
- Minimum tangible net worth of \$821,211,200 plus 75% of net proceeds from equity issuances after June 30, 2010.

Further, under the Credit Facility and Term Loan Facility, the Company is restricted from paying distributions on the Parent Company's common shares in excess of the greater of (i) 95% of funds from operations, and (ii) such amount as may be necessary to maintain the Parent Company's REIT status.

As of September 30, 2014, the Company was in compliance with all of its financial covenants and anticipates being in compliance with all of its financial covenants through the terms of the Credit Facility and Term Loan Facility.

Table of Contents**8. MORTGAGE LOANS AND NOTES PAYABLE**

The Company's mortgage loans and notes payable are summarized as follows:

Mortgage Loans and Notes Payable	Carrying Value as of:		Effective Interest Rate	Maturity Date
	September 30, 2014	December 31, 2013		
	(dollars in thousands)			
YSI 10	3,770	3,839	5.87%	Jan-15
YSI 15	1,692	1,733	6.41%	Jan-15
YSI 52	4,413	4,548	5.63%	Jan-15
YSI 58	8,440	8,676	2.97%	Jan-15
YSI 29	12,691	12,853	3.69%	Aug-15
YSI 13	8,458	8,500	3.00%	Oct-15
YSI 20	54,674	56,373	5.97%	Nov-15
YSI 63	7,493	-	2.82%	Dec-15
YSI 59	9,272	9,418	4.82%	Mar-16
YSI 60	3,625	3,670	5.04%	Aug-16
YSI 51	7,135	7,219	5.15%	Sep-16
YSI 64	7,952	-	3.54%	Oct-16
YSI 62	7,993	-	3.54%	Dec-16
YSI 35	-	4,274	6.90%	Jul-19
YSI 33	10,495	10,688	6.42%	Jul-19
YSI 26	8,823	8,945	4.56%	Nov-20
YSI 57	3,097	3,140	4.61%	Nov-20
YSI 55	23,865	24,145	4.85%	Jun-21
YSI 24	28,039	28,523	4.64%	Jun-21
Unamortized fair value adjustment	3,922	3,674		
Total mortgage loans and notes payable	\$ 215,849	\$ 200,218		

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

As of September 30, 2014 and December 31, 2013, the Company's mortgage loans payable were secured by certain of its self-storage facilities with net book values of approximately \$387 million and \$371 million, respectively. The following table represents the future principal payment requirements on the outstanding mortgage loans and notes payable at September 30, 2014 (in thousands):

2014	\$	1,411
2015		103,023
2016		36,837
2017		1,784
2018		1,886
2019 and thereafter		66,986
Total mortgage payments		211,927
Plus: Unamortized fair value adjustment		3,922
Total mortgage indebtedness	\$	215,849

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the changes in accumulated other comprehensive loss by component for the nine months ended September 30, 2014 (dollars in thousands):

	Unrealized losses on interest rate swaps	Unrealized loss on foreign currency translation	Total
Balance at December 31, 2013	\$ (10,222)	\$ (792)	\$ (11,014)
Other comprehensive (loss) gain before reclassifications	(2,214)	(50)	(2,264)
Amounts reclassified from accumulated other comprehensive loss	4,720 (a)	-	4,720
Net current-period other comprehensive gain (loss)	2,506	(50)	2,456
Balance at September 30, 2014	\$ (7,716)	\$ (842)	\$ (8,558)

(a) See note 10 for additional information about the effects of the amounts reclassified.

10. RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

Edgar Filing: CubeSmart - Form 10-Q

The Company's use of derivative instruments is limited to the utilization of interest rate swap agreements or other instruments to manage interest rate risk exposures and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure, as well as to hedge specific transactions. The counterparties to these arrangements are major financial institutions with which the Company and its subsidiaries may also have other financial relationships. The Company is potentially exposed to credit loss in the event of non-performance by these counterparties. However, because of the high credit ratings of the counterparties, the Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due. The Company does not hedge credit or property value market risks.

The Company has entered into interest rate swap agreements that qualify and are designated as cash flow hedges designed to reduce the impact of interest rate changes on its variable rate debt. Therefore, the interest rate swaps are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders' equity as accumulated other comprehensive loss. These deferred gains and losses are amortized into interest expense during the period or periods in which the related interest payments affect earnings.

Table of Contents

However, to the extent that the interest rate swaps are not perfectly effective in offsetting the change in value of the interest payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately.

The Company formally assesses, both at inception of a hedge and on an on-going basis, whether each derivative is highly-effective in offsetting changes in cash flows of the hedged item. If management determines that a derivative is highly-effective as a hedge, then the Company accounts for the derivative using hedge accounting, pursuant to which gains or losses inherent in the derivative do not impact the Company's results of operations. If management determines that a derivative is not highly-effective as a hedge or if a derivative ceases to be a highly-effective hedge, the Company will discontinue hedge accounting prospectively and will reflect in its statement of operations realized and unrealized gains and losses in respect of the derivative.

The following table summarizes the terms and fair values of the Company's derivative financial instruments at September 30, 2014 and December 31, 2013, respectively (dollars in thousands):

Hedge Product	Hedge Type (a)	Notional Amount	Strike	Effective Date	Maturity	Fair Value	
						September 30, 2014	December 31, 2013
Swap	Cash flow	\$ 40,000	1.8025%	6/20/2011	6/20/2016	\$ (865)	\$ (1,265)
Swap	Cash flow	\$ 40,000	1.8025%	6/20/2011	6/20/2016	(865)	(1,265)
Swap	Cash flow	\$ 20,000	1.8025%	6/20/2011	6/20/2016	(432)	(632)
Swap	Cash flow	\$ 75,000	1.3360%	12/30/2011	3/31/2017	(800)	(1,132)
Swap	Cash flow	\$ 50,000	1.3360%	12/30/2011	3/31/2017	(533)	(752)
Swap	Cash flow	\$ 50,000	1.3360%	12/30/2011	3/31/2017	(533)	(754)
Swap	Cash flow	\$ 25,000	1.3375%	12/30/2011	3/31/2017	(268)	(380)
Swap	Cash flow	\$ 40,000	2.4590%	6/20/2011	6/20/2018	(1,557)	(1,820)
Swap	Cash flow	\$ 40,000	2.4725%	6/20/2011	6/20/2018	(1,576)	(1,842)
Swap	Cash flow	\$ 20,000	2.4750%	6/20/2011	6/20/2018	(790)	(921)
		\$ 400,000				\$ (8,219)	\$ (10,763)

(a) Hedging unsecured variable rate debt by fixing 30-day LIBOR.

The Company measures its derivative instruments at fair value and records them in the balance sheet as either an asset or liability. As of September 30, 2014 and December 31, 2013, all derivative instruments were included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets. The effective portions of changes in the fair value of the derivatives are reported in accumulated other comprehensive income (loss). Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The change in unrealized loss on interest rate swap reflects a reclassification of \$4.8 million of unrealized losses from accumulated other comprehensive loss as an increase to interest expense during the nine months ended September 30, 2014.

11. FAIR VALUE MEASUREMENTS

Edgar Filing: CubeSmart - Form 10-Q

The Company applies the methods of determining fair value as described in authoritative guidance, to value its financial assets and liabilities. As defined in the guidance, fair value is based on the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the guidance establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Table of Contents

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considering counterparty credit risk in its assessment of fair value.

Financial assets and liabilities carried at fair value as of September 30, 2014 are classified in the table below in one of the three categories described above (dollars in thousands):

	Level 1	Level 2	Level 3
Interest Rate Swap Derivative Liabilities	\$ -	\$ 8,219	\$ -
Total liabilities at fair value	\$ -	\$ 8,219	\$ -

Financial assets and liabilities carried at fair value as of December 31, 2013 are classified in the table below in one of the three categories described above (dollars in thousands):

	Level 1	Level 2	Level 3
Interest Rate Swap Derivative Liabilities	\$ -	\$ 10,763	\$ -
Total liabilities at fair value	\$ -	\$ 10,763	\$ -

Financial assets and liabilities carried at fair value were classified as Level 2 inputs. For financial liabilities that utilize Level 2 inputs, the Company utilizes both direct and indirect observable price quotes, including LIBOR yield curves, bank price quotes for forward starting swaps, NYMEX futures pricing and common stock price quotes. Below is a summary of valuation techniques for Level 2 financial liabilities:

- Interest rate swap derivative assets and liabilities valued using LIBOR yield curves at the reporting date. Counterparties to these contracts are most often highly rated financial institutions, none of which experienced any significant downgrades in 2014 that would reduce the amount owed by the Company. 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 the Company's derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and the counterparties. However, as of September 30, 2014, the Company has assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the

Edgar Filing: CubeSmart - Form 10-Q

Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The fair values of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximate their respective carrying values at September 30, 2014 and December 31, 2013. The aggregate carrying value of the Company's debt was \$1.1 billion at September 30, 2014 and December 31, 2013, while the estimated fair value of the Company's debt was \$1.1 billion at September 30, 2014 and December 31, 2013. These estimates were based on a discounted cash flow analysis assuming market interest rates for comparable obligations at September 30, 2014 and December 31, 2013. The Company estimates the fair value of its fixed rate debt and the credit spreads over variable market rates on its variable rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of the debt obligation with similar credit policies, which is classified within level 2 of the fair value hierarchy.

Table of Contents

Rates and credit spreads take into consideration general market conditions and maturity.

12. NONCONTROLLING INTERESTS

Interests in Consolidated Real Estate Joint Ventures

251 Jamaica Ave, LLC (Jamaica Ave) was formed to own, operate, and develop a self-storage facility in New York, NY. The Company owns a 51% interest in Jamaica Ave and 49% is owned by another member (Jamaica Ave Member). The facility is expected to commence operations during 2015. The Jamaica Ave Member has an option to put its ownership interest in the venture to the Company for \$12.5 million within the one-year period after construction of the facility is substantially complete. Additionally, the Company has a one-year option to call the ownership interest of the Jamaica Ave Member for \$12.5 million beginning on the second anniversary of the facility's construction being substantially complete. The Company determined that Jamaica Ave is a variable interest entity, and that the Company is the primary beneficiary. Accordingly, the Company consolidates the assets, liabilities, and results of operations of Jamaica Ave. At September 30, 2014, Jamaica Ave had total assets of \$12.9 million and total liabilities of \$6.0 million.

CS SNL New York Ave, LLC and 186 Jamaica Avenue, LLC, collectively known as SNL , were formed with a partner to own, operate and develop two self-storage facilities in the boroughs of New York, NY. The Company owns 90% of SNL and the facilities are expected to commence operations during 2015. The Company consolidates the assets, liabilities, and results of operations of SNL. At September 30, 2014, SNL had total assets of \$10.7 million and total liabilities of \$1.1 million. The Company has provided \$0.6 million of a total \$20.1 million loan commitment to SNL which is secured by a mortgage on the real estate assets of SNL. The loan and related interest was eliminated during consolidation.

Shirlington Rd, LLC (SRLLC) was formed to own, operate, and develop a self-storage facility in Northern Virginia. The Company owns a 90% interest in SRLLC and the facility is expected to commence operations during 2015. The Company consolidates the assets, liabilities, and results of operations of SRLLC. During 2013, SRLLC acquired land for development for \$13.1 million. In 2014, SRLLC completed the planned subdivision of the land into two parcels and sold one parcel for \$6.5 million. No gain or loss was recorded as a result of this transaction. SRLLC retained the second parcel of land for the development of the storage facility. At September 30, 2014, SRLLC had total assets of \$11.7 million and total liabilities of \$7.6 million. The Company has provided \$6.4 million of a total \$14.6 million loan commitment to SRLLC, which loan is secured by a mortgage on the real estate assets of SRLLC. The loan and related interest was eliminated during consolidation.

USIFB, LLP (USIFB) was formed to own, operate, acquire and develop self-storage facilities in England. The Company owns a 97% interest in the USIFB through a wholly-owned subsidiary and USIFB commenced operations at two facilities in London, England during 2008. The Company determined that USIFB is a variable interest entity, and that the Company is the primary beneficiary. Accordingly, the Company consolidates the assets, liabilities and results of operations of USIFB. On December 31, 2013 the Company provided a \$6.8 million (£4.1 million) loan secured by a mortgage on real estate assets of USIFB. On June 30, 2014, one of the assets was sold and the loan was repaid with proceeds from the sale. The loan and any related interest was eliminated during consolidation. At September 30, 2014, USIFB had total assets of \$5.9 million and total liabilities of \$0.3 million.

Operating Partnership Ownership

The Company follows guidance regarding the classification and measurement of redeemable securities. Under this guidance, securities that are redeemable for cash or other assets, at the option of the holder and not solely within the control of the issuer, must be classified outside of permanent equity/capital. This classification results in certain outside ownership interests being included as redeemable noncontrolling interests outside of permanent equity/capital in the consolidated balance sheets. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions.

Additionally, with respect to redeemable ownership interests in the Operating Partnership held by third parties for which CubeSmart has a choice to settle the redemption by delivery of its own shares, the Operating Partnership considered the guidance regarding accounting for derivative financial instruments indexed to, and potentially settled in, a company's own shares, to evaluate whether CubeSmart controls the actions or events necessary to presume share settlement.

Table of Contents

The guidance also requires that noncontrolling interests classified outside of permanent capital be adjusted each period to the greater of the carrying value based on the accumulation of historical cost or the redemption value.

Approximately 1.5% and 1.6% of the outstanding OP Units as of September 30, 2014 and December 31, 2013, respectively, were not owned by CubeSmart, the sole general partner. The interests in the Operating Partnership represented by these OP Units were a component of the consideration that the Operating Partnership paid to acquire certain self-storage facilities. The holders of the OP Units are limited partners in the Operating Partnership and have the right to require CubeSmart to redeem all or part of their OP Units for, at the general partner's option, an equivalent number of common shares of CubeSmart or cash based upon the fair value of an equivalent number of common shares of CubeSmart. However, the partnership agreement contains certain provisions that could result in a settlement outside the control of CubeSmart and the Operating Partnership, as CubeSmart does not have the ability to settle in unregistered shares. Accordingly, consistent with the guidance, the Operating Partnership will record the OP Units owned by third parties outside of permanent capital in the consolidated balance sheets. Net income or loss related to the OP Units owned by third parties is excluded from net income or loss attributable to Operating Partner in the consolidated statements of operations.

At September 30, 2014 and December 31, 2013, 2,257,486 and 2,275,730 OP units, respectively, were outstanding. The per unit cash redemption amount of the outstanding OP units was calculated based upon the average of the closing prices of the common shares of CubeSmart on the New York Stock Exchange for the final 10 trading days of the quarter. Based on the Company's evaluation of the redemption value of the redeemable noncontrolling interests, the Company has reflected these interests at their redemption value at September 30, 2014 and December 31, 2013, as the estimated redemption value exceeded their carrying value. The Operating Partnership recorded an increase to OP Units owned by third parties and a corresponding decrease to capital of \$5.2 million and \$3.3 million at September 30, 2014 and December 31, 2013, respectively.

13. RELATED PARTY TRANSACTIONS

Affiliated Real Estate Investments

The Company provides management services to certain joint ventures and other related party facilities. Management agreements provide generally for management fees of between 5-6% of cash collections at the managed facilities. Management fees for unconsolidated joint ventures or other entities in which the Company held an ownership interest for the three and nine months ended September 30, 2014 totaled \$0.2 million and \$0.6 million, respectively. The Company had no ownership interests in unconsolidated joint ventures or other entities at September 30, 2013.

The management agreements for certain joint ventures, other related parties and third-party facilities provide for the reimbursement to the Company for certain expenses incurred to manage the facilities. These amounts consist of amounts due for management fees, payroll, and other expenses incurred on behalf of the facilities. The amounts due to the Company were \$1.4 million and \$2.1 million as of September 30, 2014 and December 31, 2013, respectively. Additionally, as discussed in note 12 the Company has outstanding mortgage loans receivable from consolidated joint ventures of \$7.0 million and \$15.8 million as of September 30, 2014 and December 31, 2013, respectively, that are eliminated for consolidation purposes. The Company believes that all of these related-party receivables are fully collectible.

Corporate Office Leases

Subsequent to its entry into lease agreements with related parties for office space, the Operating Partnership entered into sublease agreements with various unrelated tenants for the related office space. Each of these properties is part of Airport Executive Park, a 50-acre office and flex development located in Cleveland, Ohio, which is owned by former executives. Our independent Trustees approved the terms of, and entry into, each of the office lease agreements by the Operating Partnership. The table below shows the office space subject to these lease agreements and certain key provisions, including the term of each lease agreement, the period for which the Operating Partnership may extend the term of each lease agreement, and the minimum and maximum rents payable per month during the term.

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

Office Space	Approximate Square Footage	Maturity Date	Period of Extension Option (1)	Fixed Minimum Rent Per Month	Fixed Maximum Rent Per Month
The Parkview Building 6745 Engle Road; and 6751 Engle Road	21,900	12/31/2014	Five-year	\$ 25,673	\$ 31,205
6745 Engle Road Suite 100	2,212	12/31/2014	Five-year	\$ 3,051	\$ 3,709
6745 Engle Road Suite 110	1,731	12/31/2014	Five-year	\$ 2,387	\$ 2,901
6751 Engle Road Suites C and D	3,000	12/31/2014	Five-year	\$ 3,137	\$ 3,771

(1) Our Operating Partnership may extend the lease agreement beyond the termination date by the period set forth in this column at prevailing market rates upon the same terms and conditions contained in each of the lease agreements.

In addition to monthly rent, the office lease agreements provide that our Operating Partnership reimburse for certain maintenance and improvements to the leased office space. The aggregate amount of payments incurred under these lease agreements for each of the nine months ended September 30, 2014 and 2013, was approximately \$0.4 million.

Total future minimum rental payments due in accordance with the related party lease agreements are \$0.1 million and total future cash receipts due from our subtenants are \$0.1 million as of September 30, 2014.

14. DISCONTINUED OPERATIONS

For the three and nine months ended September 30, 2014, discontinued operations relates to real estate tax refunds received as a result of appeals of previous tax assessments on six self-storage facilities that the Company sold in prior years. For the three and nine months ended September 30, 2013, discontinued operations relates to 35 facilities sold during 2013.

The following table summarizes the revenue and expense information for the facilities classified as discontinued operations during the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
REVENUES				
Rental income	\$ -	\$ 3,025	\$ -	\$ 10,271
Other property related income	-	427	-	1,445
Total revenues	-	3,452	-	11,716
OPERATING EXPENSES				
Property operating expenses	-	1,113	(336)	4,478
Depreciation and amortization	-	727	-	2,480
Total operating expenses	-	1,840	(336)	6,958
OPERATING INCOME	-	1,612	336	4,758

Edgar Filing: CubeSmart - Form 10-Q

OTHER (EXPENSE) INCOME

Interest expense on loans	-	(27)	-	(217)
Gain on disposition of discontinued operations	-	9,310	-	9,538
Total discontinued operations	\$ -	\$ 10,895	\$ 336	\$ 14,079

Table of Contents**15. PRO FORMA FINANCIAL INFORMATION**

During the nine months ended September 30, 2014 and the year ended December 31, 2013, the Company acquired 22 self-storage facilities for an aggregate purchase price of approximately \$269.6 million (see note 4) and 20 self-storage facilities for an aggregate purchase price of approximately \$189.8 million, respectively.

The condensed consolidated pro forma financial information set forth below reflects adjustments to the Company's historical financial data to give effect to each of the acquisitions and related financing activity (including the issuance of common shares) that occurred during 2014 and 2013 as if each had occurred as of January 1, 2013 and 2012, respectively. The pro forma information presented below does not purport to represent what the Company's actual results of operations would have been for the periods indicated, nor does it purport to represent the Company's future results of operations.

The following table summarizes, on a pro forma basis, the Company's consolidated results of operations for the nine months ended September 30, 2014 and 2013 based on the assumptions described above:

	Nine Months Ended September 30,	
	2014	2013
	(in thousands, except per share data)	
Pro forma revenues	\$ 284,267	\$ 264,388
Pro forma net income attributable to the Company's common shareholders	\$ 36,657	\$ 11,567
Earnings per share from continuing operations attributable to common shareholders		
Basic - as reported	\$ 0.11	\$ 0.00
Diluted - as reported	\$ 0.11	\$ 0.00
Basic - as pro forma	\$ 0.25	\$ 0.09
Diluted - as pro forma	\$ 0.25	\$ 0.08

16. SUBSEQUENT EVENTS

Subsequent to September 30, 2014, the Company acquired three self-storage facilities in Texas for an aggregate purchase price of \$23.9 million.

On October 2, 2014, the Company amended its equity distribution agreements with various sales agents to increase the number of common shares of beneficial interest authorized for sale through its at-the-market equity program from 20.0 million to 30.0 million.

On October 20, 2014, the Parent Company completed its public offering of 7,475,000 common shares at a public offering price of \$19.33, which reflects the full exercise by the underwriters of their option to purchase 975,000 shares to cover over-allotments. We received approximately

Edgar Filing: CubeSmart - Form 10-Q

\$143.0 million in net proceeds from the offering after deducting the underwriting discount and other estimated offering expenses.

On November 3, 2014, the Company acquired the first tranche of 22 self-storage facilities as part of the HSRE Acquisition. The facilities are located in California, Florida, Illinois, Nevada, New York, Ohio and Rhode Island. The aggregate purchase price for the 22 facilities was approximately \$195.5 million. The remaining four facilities are expected to close during the first quarter of 2015.

Table of Contents

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. The Company makes certain statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a discussion of forward-looking statements, see the section in this report entitled "Forward-Looking Statements." Certain risk factors may cause actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the section entitled "Risk Factors" in the Parent Company's and Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2013.

Overview

We are an integrated self-storage real estate company, and as such we have in-house capabilities in the operation, design, development, leasing, management and acquisition of self-storage facilities. The Parent Company's operations are conducted solely through the Operating Partnership and its subsidiaries. The Parent Company has elected to be taxed as a REIT for U.S. federal income tax purposes. As of September 30, 2014 and December 31, 2013, we owned 390 and 366 self-storage facilities, respectively, totaling approximately 26.4 million and 24.7 million rentable square feet, respectively. As of September 30, 2014, we owned facilities in the District of Columbia and the following 21 states: Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Maryland, Massachusetts, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, Utah and Virginia. In addition, as of September 30, 2014, we managed 172 facilities for third parties (including 35 facilities as part of an unconsolidated real estate venture) bringing the total number of facilities which we owned and/or managed to 562. As of September 30, 2014, the Company managed facilities in the following 22 states: Alabama, Arizona, California, Colorado, Florida, Georgia, Illinois, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, and Virginia.

We derive revenues principally from rents received from our customers who rent cubes at our self-storage facilities under month-to-month leases. Therefore, our operating results depend materially on our ability to retain our existing customers and lease our available self-storage cubes to new customers while maintaining and, where possible, increasing our pricing levels. In addition, our operating results depend on the ability of our customers to make required rental payments to us. Our approach to the management and operation of our facilities combines centralized marketing, revenue management and other operational support with local operations teams that provide market-level oversight and control. We believe this approach allows us to respond quickly and effectively to changes in local market conditions, and to maximize revenues by managing rental rates and occupancy levels.

We typically experience seasonal fluctuations in the occupancy levels of our facilities, which are generally slightly higher during the summer months due to increased moving activity.

Our results of operations may be sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending, as well as to increased bad debts due to recessionary pressures. A slow recovery from ongoing adverse economic conditions affecting disposable consumer income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs, and other matters could reduce consumer spending or cause consumers to shift their spending to other products and services. A general reduction in the level of discretionary spending or shifts in consumer discretionary spending could adversely affect our growth and profitability.

Edgar Filing: CubeSmart - Form 10-Q

We continue our focus on maximizing internal growth opportunities and selectively pursuing targeted acquisitions and developments of self-storage facilities.

We have one reportable segment: we own, operate, develop, manage and acquire self-storage facilities.

Our self-storage facilities are located in major metropolitan and suburban areas and have numerous customers per facility. No single customer represents a significant concentration of our revenues. The facilities in New York, Florida, Texas and California provided approximately 17%, 17%, 10% and 8%, respectively, of total revenues for the nine months ended September 30, 2014.

Table of Contents

Summary of Critical Accounting Policies and Estimates

Set forth below is a summary of the accounting policies and estimates that management believes are critical to an understanding of the unaudited consolidated financial statements included in this report. Certain of the accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this report. A summary of significant accounting policies is also provided in the aforementioned notes to our consolidated financial statements (See note 2 to the unaudited consolidated financial statements). These policies require the application of judgment and assumptions by management and, as a result, are subject to a degree of uncertainty. Due to this uncertainty, actual results could differ from estimates calculated and utilized by management.

Basis of Presentation

The accompanying consolidated financial statements include all of the accounts of the Company, and its majority-owned and/or controlled subsidiaries. The portion of these entities not owned by the Company is presented as noncontrolling interests as of and during the periods presented. All significant intercompany accounts and transactions have been eliminated in consolidation.

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity (VIE), and if the Company is deemed to be the primary beneficiary, in accordance with authoritative guidance issued by the Financial Accounting Standards Board (FASB) on the consolidation of VIEs. When an entity is not deemed to be a VIE, the Company considers the provisions of additional FASB guidance to determine whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company controls and in which the limited partners do not have substantive participating rights, or the ability to dissolve the entity or remove the Company without cause.

Self-Storage Facilities

The Company records self-storage facilities at cost less accumulated depreciation. Depreciation on the buildings and equipment is recorded on a straight-line basis over their estimated useful lives, which range from five to 39 years. Expenditures for significant renovations or improvements that extend the useful life of assets are capitalized. Repairs and maintenance costs are expensed as incurred.

When facilities are acquired, the purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed based on estimated fair values. When a portfolio of facilities is acquired, the purchase price is allocated to the individual facilities based upon an income approach or a cash flow analysis using appropriate risk adjusted capitalization rates, which take into account the relative size, age and location of the individual facility along with current and projected occupancy and rental rate levels or appraised values, if available. Allocations to the individual assets and liabilities are based upon comparable market sales information for land, buildings and improvements and estimates of depreciated replacement cost of equipment.

Edgar Filing: CubeSmart - Form 10-Q

In allocating the purchase price for an acquisition, the Company determines whether the acquisition includes intangible assets or liabilities. The Company allocates a portion of the purchase price to an intangible asset attributable to the value of in-place leases. This intangible asset is generally amortized to expense over the expected remaining term of the in-place leases. Substantially all of the leases in place at acquired facilities are at market rates, as the majority of the leases are month-to-month contracts. Accordingly, to date no portion of the purchase price for an acquired property has been allocated to above- or below-market lease intangibles. To date, no intangible asset has been recorded for the value of customer relationships, because the Company does not have any concentrations of significant customers and the average customer turnover is fairly frequent.

Long-lived assets classified as held for use are reviewed for impairment when events and circumstances such as declines in occupancy and operating results indicate that there may be an impairment. The carrying value of these long-lived assets is compared to the undiscounted future net operating cash flows, plus a terminal value, attributable to the assets to determine if the property's basis is recoverable. If a property's basis is not considered recoverable, an impairment loss is recorded to the extent the net carrying value of the asset exceeds the fair value.

Table of Contents

The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset. There were no impairment losses recognized in accordance with these procedures during 2014 and 2013.

The Company considers long-lived assets to be held for sale upon satisfaction of the following criteria: (a) management commits to a plan to sell a facility (or group of facilities), (b) the facility is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such facilities, (c) an active program to locate a buyer and other actions required to complete the plan to sell the facility have been initiated, (d) the sale of the facility is probable and transfer of the asset is expected to be completed within one year, (e) the facility is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (f) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Typically these criteria are all met when the relevant asset is under contract, significant non-refundable deposits have been made by the potential buyer, the assets are immediately available for transfer and there are no contingencies related to the sale that may prevent the transaction from closing. However, each potential transaction is evaluated based on its separate facts and circumstances. Facilities classified as held for sale are reported at the lesser of carrying value or fair value less estimated costs to sell.

Revenue Recognition

Management has determined that all of our leases with customers are operating leases. Rental income is recognized in accordance with the terms of the lease agreements or contracts, which generally are month to month.

The Company recognizes gains on disposition of facilities only upon closing in accordance with the guidance on sales of real estate. Payments received from purchasers prior to closing are recorded as deposits. Profit on real estate sold is recognized using the full accrual method upon closing when the collectability of the sales price is reasonably assured and the Company is not obligated to perform significant activities after the sale. Profit may be deferred in whole or part until the sale meets the requirements of profit recognition on sales under this guidance.

Share-Based Payments

We apply the fair value method of accounting for contingently issued shares and share options issued under our equity incentive plans. Accordingly, share compensation expense is recorded ratably over the vesting period relating to such contingently issued shares and options. The Company has elected to recognize compensation expense on a straight-line method over the requisite service period.

Noncontrolling Interests

Edgar Filing: CubeSmart - Form 10-Q

Noncontrolling interests are the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. The ownership interests in the subsidiary that are held by owners other than the parent are noncontrolling interests. In accordance with authoritative guidance issued on noncontrolling interests in consolidated financial statements, such noncontrolling interests are reported on the consolidated balance sheets within equity/capital, separately from the Parent Company's equity/capital. The guidance also requires that noncontrolling interests are adjusted each period so that the carrying value equals the greater of its carrying value based on the accumulation of historical cost or its redemption value. On the consolidated statements of operations, revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Parent Company and noncontrolling interests. Presentation of consolidated equity/capital activity is included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for shareholders' equity/capital, noncontrolling interests and total equity/capital.

Investments in Unconsolidated Real Estate Ventures

The Company accounts for its investments in unconsolidated real estate ventures under the equity method of accounting. Under the equity method, investments in unconsolidated joint ventures are recorded initially at cost, as investments in real estate entities, and subsequently adjusted for equity in earnings (losses), cash contributions, less distributions and impairments.

Table of Contents

On a periodic basis, management also assesses whether there are any indicators that the carrying value of the Company's investments in unconsolidated real estate entities may be other than temporarily impaired. An investment is impaired only if the fair value of the investment, as estimated by management, is less than the carrying value of the investment and the decline is other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment, as estimated by management. The determination as to whether impairment exists requires significant management judgment about the fair value of its ownership interest. Fair value is determined through various valuation techniques, including but not limited to, discounted cash flow models, quoted market values and third party appraisals.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued an update to the accounting standard for the reporting of discontinued operations. The update redefines discontinued operations, changing the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This amendment becomes effective for annual periods beginning on or after December 15, 2014, and interim periods beginning on or after December 15, 2015; however early adoption is permitted. The Company elected to adopt this guidance in 2014 and such adoption did not have a material impact on the Company's consolidated financial position or results of operations. The Company disposed of one asset during the nine months ended September 30, 2014, however the disposal did not meet the criteria for discontinued operations under the new guidance.

In May 2014, the FASB issued Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Results of Operations

The following discussion of our results of operations should be read in conjunction with the consolidated financial statements and the accompanying notes thereto. Historical results set forth in the consolidated statements of operations reflect only the existing facilities and should not be taken as indicative of future operations. The Company considers its same-store portfolio to consist of only those facilities owned and operated on a stabilized basis at the beginning and at the end of the applicable periods presented. We consider a property to be stabilized once it has achieved an occupancy rate representative of similar self-storage assets in the respective markets for a full year measured as of the most recent January 1 or has otherwise been placed in-service and has not been significantly damaged by natural disaster or undergone significant renovation. We believe that same-store results are useful to investors in evaluating our performance because they provide information relating to changes in facility-level operating performance without taking into account the effects of acquisitions, developments or dispositions. At September 30, 2014, there were 346 same-store facilities and 44 non-same-store facilities. All of the non-same-store facilities were 2013 and 2014 acquisitions or developed facilities.

Table of Contents*Acquisition and Development Activities*

The comparability of the Company's results of operations is affected by the timing of acquisition and disposition activities during the periods reported. At September 30, 2014 and 2013, the Company owned 390 and 382 self-storage facilities and related assets, respectively. The following table summarizes the change in number of owned self-storage facilities from January 1, 2013 through September 30, 2014:

	2014	2013
Balance - January 1	366	381
Facilities acquired	10	1
Facilities developed	2	-
Facilities sold	-	(5)
Balance - March 31	378	377
Facilities acquired	9	9
Balance - June 30	387	386
Facilities acquired	3	4
Facilities sold	-	(8)
Balance - September 30	390	382
Facilities acquired		6
Facilities sold		(22)
Balance - December 31		366

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

Comparison of the three months ended September 30, 2014 to the three months ended September 30, 2013 (in thousands)

	Same-Store Property Portfolio				Non Same-Store Properties		Other/ Eliminations		Total Portfolio			
	2014	2013	Increase/ (Decrease)	% Change	2014	2013	2014	2013	2014	2013	Increase/ (Decrease)	% Change
REVENUES												
Rental income	\$ 75,101	\$ 69,918	\$ 5,183	7.4%	\$ 10,291	\$ 2,826	\$ -	\$ -	\$ 85,392	\$ 72,744	\$ 12,648	17.4%
Other property related income	8,321	7,562	759	10.0%	1,112	310	709	686	10,142	8,558	1,584	18.5%
Property management fee income	-	-	-	-	-	-	1,558	1,185	1,558	1,185	373	31.5%
Total revenues	83,422	77,480	5,942	7.7%	11,403	3,136	2,267	1,871	97,092	82,487	14,605	17.7%
OPERATING EXPENSES												
Property operating expenses	25,563	25,273	290	1.1%	3,928	1,200	4,131	3,538	33,622	30,011	3,611	12.0%
NET OPERATING INCOME	\$ 57,859	\$ 52,207	\$ 5,652	10.8%	\$ 7,475	\$ 1,936	\$ (1,864)	\$ (1,667)	\$ 63,470	\$ 52,476	\$ 10,994	21.0%
Property count	346	346			44	14			390	360		
Total square footage	23,164	23,164			3,220	1,024			26,384	24,188		
Period End Occupancy (1)	91.7%	90.0%			90.0%	79.5%			91.5%	89.6%		
Period Average Occupancy (2)	92.3%	90.5%										
Realized annual rent per occupied square foot (3)	\$ 14.05	\$ 13.35										
Depreciation and amortization									31,622	28,448	3,174	11.2%
General and administrative									7,464	7,326	138	1.9%
Acquisition related costs									1,258	470	788	167.7%
Subtotal									40,344	36,244	4,100	11.3%
OPERATING INCOME									23,126	16,232	6,894	42.5%
OTHER INCOME (EXPENSE)												
Interest:												
Interest expense on loans									(11,772)	(9,968)	(1,804)	-18.1%
Loan procurement amortization expense									(566)	(536)	(30)	-5.6%
Equity in losses of real estate venture									(1,860)	-	(1,860)	-100.0%
Other									(337)	(22)	(315)	-1431.8%
Total other expense									(14,535)	(10,526)	(4,009)	-38.1%
INCOME FROM CONTINUING OPERATIONS									8,591	5,706	2,885	50.6%

Edgar Filing: CubeSmart - Form 10-Q

DISCONTINUED OPERATIONS				
Income from discontinued operations	-	1,585	(1,585)	-100.0%
Gain on disposition of discontinued operations	-	9,310	(9,310)	-100.0%
Total discontinued operations	-	10,895	(10,895)	-100.0%
NET INCOME	8,591	16,601	(8,010)	-48.3%
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership	(106)	(257)	151	58.8%
Noncontrolling interests in subsidiaries	(5)	(2)	(3)	-150.0%
NET INCOME ATTRIBUTABLE TO THE COMPANY	8,480	16,342	(7,862)	-48.1%

- (1) Represents occupancy at September 30 of the respective year.
- (2) Represents the weighted average occupancy for the period.
- (3) Realized annual rent per occupied square foot is computed by dividing rental income by the weighted average occupied square feet for the period.

Revenues

Rental income increased from \$72.7 million during the three months ended September 30, 2013 to \$85.4 million during the three months ended September 30, 2014, an increase of \$12.7 million, or 17.4%. This increase is primarily attributable to \$7.5 million of additional income from the facilities acquired in 2013 and 2014 and increases in net rental rates and average occupancy on the same-store portfolio which contributed to the \$5.2 million increase in rental income during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

Other property related income increased from \$8.6 million during the three months ended September 30, 2013 to \$10.1 million during the three months ended September 30, 2014, an increase of \$1.5 million, or 18.5%. This increase is primarily attributable to increased tenant insurance commissions on the same-store and non-same-store portfolios of \$0.7 million and \$0.4 million, respectively, during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

Operating Expenses

Property operating expenses increased from \$30.0 million during the three months ended September 30, 2013 to \$33.6 million during the three months ended September 30, 2014, an increase of \$3.6 million, or 12.0%.

Table of Contents

This increase is attributable to \$2.7 million of increased expenses associated with newly acquired facilities, \$0.3 million of increased expenses attributable to real estate taxes associated with the same-store portfolio and \$0.6 million of increased expenses associated with the management of third-party facilities.

Acquisition-related costs increased from \$0.5 million during the three months ended September 30, 2013 to \$1.3 million during the three months ended September 30, 2014. Acquisition-related costs are non-recurring and fluctuate based on quarterly investment activity.

Other Income (Expense)

Interest expense increased from \$10.0 million during the three months ended September 30, 2013 to \$11.8 million during the three months ended September 30, 2014, an increase of \$1.8 million, or 18.1%. The increase is attributable to a higher amount of outstanding debt in the 2014 period. To fund a portion of the Company's growth, the average debt balance during the three months ended September 30, 2014 increased approximately \$85 million from the same period in 2013, from \$1,065 million to \$1,150 million. In addition, the weighted average effective interest rate on our outstanding debt increased from 3.75% for the three months ended September 30, 2013 to 4.09% for the three months ended September 30, 2014.

Equity in losses of real estate venture was \$1.9 million for the three months ended September 30, 2014 with no comparable amount during the 2013 period. This expense is related to the Company's share of the losses attributable to HHF, a partnership in which the Company acquired a 50% ownership interest during the fourth quarter of 2013.

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

Comparison of the nine months ended September 30, 2014 to the nine months ended September 30, 2013 (in thousands)

	Same-Store Property Portfolio				Non Same-Store Properties		Other/ Eliminations		Total Portfolio			
	2014	2013	Increase/ (Decrease)	% Change	2014	2013	2014	2013	2014	2013	Increase/ (Decrease)	% Change
REVENUES												
Rental income	\$ 217,574	\$ 203,288	\$ 14,286	7.0%	\$ 24,603	\$ 4,447	\$ -	\$ -	\$ 242,177	\$ 207,735	\$ 34,442	16.6%
Other property related income	24,177	21,763	2,414	11.1%	3,693	450	2,218	1,937	30,088	24,150	5,938	24.6%
Property management fee income	-	-	-	-	-	-	4,431	3,547	4,431	3,547	884	24.9%
Total revenues	241,751	225,051	16,700	7.4%	28,296	4,897	6,649	5,484	276,696	235,432	41,264	17.5%
OPERATING EXPENSES												
Property operating expenses	76,947	75,060	1,887	2.5%	9,993	1,842	11,052	10,738	97,992	87,640	10,352	11.8%
NET OPERATING INCOME	\$ 164,804	\$ 149,991	\$ 14,813	9.9%	\$ 18,303	\$ 3,055	\$ (4,403)	\$ (5,254)	\$ 178,704	\$ 147,792	\$ 30,912	20.9%
Property count	346	346			44	14			390	360		
Total square footage	23,164	23,164			3,220	1,024			26,384	24,188		
Period End												
Occupancy (1)	91.7%	90.0%			90.0%	79.5%			91.5%	89.6%		
Period Average												
Occupancy (2)	90.9%	87.9%										
Realized annual rent per occupied square foot (3)	\$ 13.78	\$ 13.31										
Depreciation and amortization									90,224	85,824	4,400	5.1%
General and administrative									21,092	22,454	(1,362)	-6.1%
Acquisition related costs									3,658	2,233	1,425	63.8%
Subtotal									114,974	110,511	4,463	4.0%
OPERATING INCOME									63,730	37,281	26,449	70.9%
OTHER INCOME (EXPENSE)												
Interest:												
Interest expense on loans									(35,670)	(30,828)	(4,842)	-15.7%
Loan procurement amortization expense									(1,650)	(1,509)	(141)	-9.3%
Equity in losses of real estate venture									(4,958)	-	(4,958)	-100.0%
Gain from sale of real estate									475	-	475	100.0%
Other									(1,103)	(282)	(821)	-291.1%
Total other expense									(42,906)	(32,619)	(10,287)	-31.5%
INCOME FROM CONTINUING OPERATIONS									20,824	4,662	16,162	346.7%

Edgar Filing: CubeSmart - Form 10-Q

DISCONTINUED OPERATIONS				
Income from discontinued operations	336	4,541	(4,205)	-92.6%
Gain on disposition of discontinued operations	-	9,538	(9,538)	-100.0%
Total discontinued operations	336	14,079	(13,743)	-97.6%
NET INCOME	21,160	18,741	2,419	12.9%
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership	(250)	(240)	(10)	-4.2%
Noncontrolling interests in subsidiaries	(14)	(1)	(13)	-1300.0%
NET INCOME ATTRIBUTABLE TO THE COMPANY	20,896	18,500	2,396	13.0%

- (1) Represents occupancy at September 30 of the respective year.
- (2) Represents the weighted average occupancy for the period.
- (3) Realized annual rent per occupied square foot is computed by dividing rental income by the weighted average occupied square feet for the period.

Revenues

Rental income increased from \$207.7 million during the nine months ended September 30, 2013 to \$242.2 million during the nine months ended September 30, 2014, an increase of \$34.5 million, or 16.6%. This increase is primarily attributable to \$20.2 million of additional income from the facilities acquired in 2013 and 2014 and increases in net rental rates and average occupancy on the same-store portfolio which contributed to the \$14.3 million increase in rental income during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Other property related income increased from \$24.2 million during the nine months ended September 30, 2013 to \$30.1 million during the nine months ended September 30, 2014, an increase of \$5.9 million, or 24.6%. This increase is primarily attributable to increased tenant insurance commissions of \$2.4 million on the same-store portfolio and \$2.1 million on the non-same-store portfolio during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Table of Contents

Operating Expenses

Property operating expenses increased from \$87.6 million during the nine months ended September 30, 2013 to \$98.0 million during the nine months ended September 30, 2014, an increase of \$10.4 million, or 11.8%. This increase is primarily attributable to \$8.2 million of increased expenses associated with newly acquired facilities as well as increased expenses on the same-store portfolio. The increases in same-store expenses were associated with snow removal and utilities, due to a relatively colder winter in 2014 than in the prior year, as well as increases in real estate taxes.

General and administrative expenses decreased from \$22.5 million for the nine months ended September 30, 2013 to \$21.1 million for the nine months ended September 30, 2014, a decrease of \$1.4 million, or 6.1%. The decrease is primarily attributable to lower share based compensation expense and payroll expenses of \$1.7 million.

Acquisition-related costs increased from \$2.2 million during the nine months ended September 30, 2013 to \$3.7 million during the nine months ended September 30, 2014. Acquisition-related costs are non-recurring and fluctuate based on quarterly investment activity. The increase was the result of the acquisition of 22 facilities in the 2014 period compared to only 14 facilities during the 2013 period.

Other Income (Expense)

Interest expense increased from \$30.8 million during the nine months ended September 30, 2013 to \$35.7 million during the nine months ended September 30, 2014, an increase of \$4.9 million, or 15.7%. The increase is attributable to a higher amount of outstanding debt in the 2014 period. To fund a portion of the Company's growth, the average debt balance during the nine months ended September 30, 2014 increased approximately \$142 million from the same period in 2013, from \$1,038 million to \$1,180 million. In addition, the weighted average effective interest rate on our outstanding debt increased from 3.99% for the nine months ended September 30, 2013 to 4.03% for the nine months ended September 30, 2014.

Equity in losses of real estate venture was \$5.0 million for the nine months ended September 30, 2014 with no comparable amount during the 2013 period. This expense is related to the Company's share of the losses attributable to HHF, a partnership in which the Company acquired a 50% ownership interest during the fourth quarter of 2013.

Cash Flows

Comparison of the nine months ended September 30, 2014 to the nine months ended September 30, 2013

Edgar Filing: CubeSmart - Form 10-Q

A comparison of cash flow from operating, investing and financing activities for the nine months ended September 30, 2014 and 2013 is as follows (in thousands):

	Nine Months Ended September 30,		Change
	2014	2013	
<u>Net cash flow provided by (used in):</u>			
Operating activities	\$ 118,932	\$ 103,891	\$ 15,041
Investing activities	\$ (218,973)	\$ (130,273)	\$ (88,700)
Financing activities	\$ 128,129	\$ 24,827	\$ 103,302

Cash flows provided by operating activities for the nine months ended September 30, 2014 and 2013 were \$118.9 million and \$103.9 million, respectively, reflecting an increase of \$15.0 million. Our principal source of cash flow is from the operation of our facilities. During the nine months ended September 30, 2014, our increased cash flow from operating activities was primarily attributable to our 2013 acquisitions and increased net operating income levels on the same-store portfolio in the 2014 period as compared to the 2013 period.

Table of Contents

Cash flows used in investing activities increased from \$130.3 million for the nine months ended September 30, 2013 to \$219.0 million for the nine months ended September 30, 2014, reflecting an increase of \$88.7 million. The change was driven by more acquisition activity in 2014 as we acquired 14 facilities in the 2013 period for an aggregate purchase price of \$133.1 million compared to 22 facilities in the 2014 period for an aggregate purchase price of \$269.6 million, inclusive of \$27.5 million of assumed debt. This increase in cash flows used to acquire storage facilities was offset by \$55.4 million in cash distributed from our unconsolidated joint venture, \$50.6 million of which was the result of obtaining venture-level financing.

For the nine months ended September 30, 2014 and 2013, cash flows provided by financing activities were \$128.1 million and \$24.8 million, respectively, reflecting an increase of \$103.3 million. This change was driven by net proceeds of \$236.0 million received from the issuance of common shares under our at-the-market equity program during the nine months ended September 30, 2014 compared to net proceeds of \$52.5 million during the nine months ended September 30, 2013. This increase in cash flows provided by the at-the-market equity program was offset by a \$81.9 million net decrease in revolving credit facility borrowings during the nine months ended September 30, 2014, compared to the same period in 2013 as proceeds from our at-the-market equity program and cash distributed from our unconsolidated joint venture were used to repay a portion of the revolving credit facility borrowings and to fund acquisitions.

Liquidity and Capital Resources

Liquidity Overview

Our cash flow from operations has historically been one of our primary sources of liquidity used to fund debt service, distributions and capital expenditures. We derive the majority of our revenue from customers who lease space from us at our facilities. Therefore, our ability to generate cash from operations is dependent on the rents that we are able to charge and collect from our customers. We believe that the facilities in which we invest, self-storage facilities, are less sensitive than other real estate product types to near-term economic downturns. However, prolonged economic downturns will adversely affect our cash flows from operations.

In order to qualify as a REIT for federal income tax purposes, the Parent Company is required to distribute at least 90% of its REIT taxable income, excluding capital gains, to its shareholders on an annual basis or pay federal income tax. The nature of our business, coupled with the requirement that we distribute a substantial portion of our income on an annual basis, will cause us to have substantial liquidity needs over both the short term and the long term.

Our short-term liquidity needs consist primarily of funds necessary to pay operating expenses associated with our facilities, refinancing of certain mortgage indebtedness, interest expense and scheduled principal payments on debt, expected distributions to limited partners and shareholders, capital expenditures and the development of new facilities. These funding requirements will vary from year to year, in some cases significantly. In the 2014 fiscal year, we expect remaining capital expenditures to be approximately \$3.0 million to \$7.0 million and remaining costs associated with the development of new facilities to be approximately \$12.0 million to \$16.0 million. Our currently scheduled principal payments on debt, including debt maturities and borrowings outstanding on the Credit Facility and Term Loan Facility, are approximately \$1.4 million for the remainder of 2014.

Edgar Filing: CubeSmart - Form 10-Q

Our most restrictive debt covenants limit the amount of additional leverage we can add; however, we believe cash flow from operations, access to equity financing, including through our at the market equity program, and available borrowings under our Credit Facility provide adequate sources of liquidity to enable us to execute our current business plan and remain in compliance with our covenants.

Our liquidity needs beyond 2014 consist primarily of contractual obligations which include repayments of indebtedness at maturity, as well as potential discretionary expenditures such as (i) non-recurring capital expenditures; (ii) redevelopment of operating facilities; (iii) acquisitions of additional facilities; and (iv) development of new facilities. We will have to satisfy the portion of our needs not covered by cash flow from operations through additional borrowings, including borrowings under our Credit Facility, sales of common or preferred shares of the Parent Company and common or preferred units of the Operating Partnership and/or cash generated through facility dispositions and joint venture transactions.

Table of Contents

We believe that, as a publicly traded REIT, we will have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, we cannot provide any assurance that this will be the case. Our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. In addition, dislocation in the United States debt markets may significantly reduce the availability and increase the cost of long-term debt capital, including conventional mortgage financing and commercial mortgage-backed securities financing. There can be no assurance that such capital will be readily available in the future. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about us.

As of September 30, 2014, we had approximately \$31.3 million in available cash and cash equivalents. In addition, we had approximately \$300.0 million of availability for borrowings under our Credit Facility.

Unsecured Senior Notes

On December 17, 2013, the Operating Partnership issued \$250 million in aggregate principal amount of unsecured senior notes due December 15, 2023 (the 2023 Senior Notes) which bear interest at a rate of 4.375%. On June 26, 2012, the Operating Partnership issued \$250 million in aggregate principal amount of unsecured senior notes due July 15, 2022 (the 2022 Senior Notes) which bear interest at a rate of 4.80%. The 2023 Senior Notes along with the 2022 Senior Notes are collectively referred to as the Senior Notes. The indenture under which the Senior Notes were issued restricts the ability of the Operating Partnership and its subsidiaries to incur debt unless the Operating Partnership and its consolidated subsidiaries comply with a leverage ratio not to exceed 60% and an interest coverage ratio of more than 1.5:1 after giving effect to the incurrence of the debt. The indenture also restricts the ability of the Operating Partnership and its subsidiaries to incur secured debt unless the Operating Partnership and its consolidated subsidiaries comply with a secured debt leverage ratio not to exceed 40% after giving effect to the incurrence of the debt. The indenture also contains other financial and customary covenants, including a covenant not to own unencumbered assets with a value less than 150% of the unsecured indebtedness of the Operating Partnership and its consolidated subsidiaries. As of September 30, 2014, the Operating Partnership was in compliance with all of the financial covenants under the Senior Notes.

Bank Credit Facilities

On June 20, 2011, we entered into an unsecured term loan agreement (the Term Loan Facility) which consisted of a \$100 million term loan with a five-year maturity (Term Loan A) and a \$100 million term loan with a seven-year maturity (Term Loan B). We incurred costs of \$2.1 million in connection with executing the agreement and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheet.

On December 9, 2011, we entered into a credit facility (the Credit Facility) comprised of a \$100 million unsecured term loan maturing in December 2014 (Term Loan C); a \$200 million unsecured term loan maturing in March 2017 (Term Loan D); and a \$300 million unsecured revolving facility maturing in December 2015 (Revolver). We incurred costs of \$3.4 million in connection with executing the agreement and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheet.

Edgar Filing: CubeSmart - Form 10-Q

On June 18, 2013, we amended both the Term Loan Facility and Credit Facility. With respect to the Term Loan Facility, among other things, the amendment extended the maturity and decreased the pricing of Term Loan A, while Term Loan B remained unchanged by the amendment. On August 5, 2014, we further amended the Term Loan Facility (collectively with the amendment on June 18, 2013, the Amendments), to extend the maturity and decrease the pricing of Term Loan B.

Pricing on the Term Loan Facility depends on our unsecured debt credit ratings. At our current Baa2/BBB level, amounts drawn under Term Loan A are priced at 1.30% over LIBOR, with no LIBOR floor, while amounts drawn under Term Loan B are priced at 1.15% over LIBOR, with no LIBOR floor.

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

	Term Loan Facility Prior to Amendments				Term Loan Facility As Amended		
	Amount	Maturity Date	LIBOR Spread		Maturity Date	LIBOR Spread (1)	
			Baa3/BBB-	Baa2/BBB		Baa3/BBB-	Baa2/BBB
Term Loan A	\$100 million	June 2016	1.85%	1.65%	June 2018	1.50%	1.30%
Term Loan B	\$100 million	June 2018	2.00%	1.80%	January 2020	1.40%	1.15%

(1) On September 25, 2014, our unsecured debt credit rating was upgraded to Baa2 from Baa3 by Moody's Investors Service with a stable outlook. As a result, the LIBOR spreads were reduced, effective October 1, 2014.

With respect to the Credit Facility, among other things, the Amendments extended the maturities of the Revolver and Term Loan D and decreased the pricing of the Revolver, Term Loan C and Term Loan D. Pricing on the Credit Facility depends on our unsecured debt credit ratings. At our current Baa2/BBB level, amounts drawn under the Revolver are priced at 1.30% over LIBOR, inclusive of a facility fee of 0.20%, with no LIBOR floor, while amounts drawn under Term Loan C and Term Loan D are priced at 1.30% over LIBOR, with no LIBOR floor.

	Credit Facility Prior to Amendments				Credit Facility As Amended		
	Amount	Maturity Date	LIBOR Spread		Maturity Date	LIBOR Spread (2)	
			Baa3/BBB-	Baa2/BBB		Baa3/BBB-	Baa2/BBB
Revolver	\$300 million	December 2015	1.80%	1.50%	June 2017	1.60%	1.30%
Term Loan C	\$100 million	December 2014	1.75%	1.45%	December 2014	1.50%	1.30%
Term Loan D	\$200 million	March 2017	1.75%	1.45%	January 2019	1.50%	1.30%

(1) On December 17, 2013, we repaid the \$100 million balance under Term Loan C that was scheduled to mature in December 2014.
 (2) On September 25, 2014, our unsecured debt credit rating was upgraded to Baa2 from Baa3 by Moody's Investors Service with a stable outlook. As a result, the LIBOR spreads were reduced, effective October 1, 2014.

We incurred costs of \$2.1 million in 2013 and \$0.2 million in 2014 in connection with the Amendments and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheet. Unamortized costs, along with costs incurred in connection with the amendments, are amortized as an adjustment to interest expense over the remaining term of the modified facilities. In connection with the repayment of Term Loan C, we recognized \$0.4 million related to the write-off of unamortized loan procurement costs associated with the term loan.

As of September 30, 2014, \$200 million of unsecured term loan borrowings were outstanding under the Term Loan Facility, \$200 million of unsecured term loan borrowings were outstanding under the Credit Facility and \$300 million was available for borrowing on the unsecured revolving portion of the Credit Facility. The available balance under the unsecured revolving portion of the Credit Facility is reduced by an outstanding letter of credit of \$30 thousand. In connection with a portion of the unsecured borrowings, we maintained interest rate swaps as of September 30, 2014 that fixed 30-day LIBOR (see note 10). As of September 30, 2014, borrowings under the Credit Facility and Term Loan Facility, as amended and after giving effect to the interest rate swaps, had an effective weighted average interest rate of 3.21%.

Edgar Filing: CubeSmart - Form 10-Q

The Term Loan Facility and the term loan under our Credit Facility were fully drawn at September 30, 2014 and no further borrowings may be made under the term loans. Our ability to borrow under the revolving portion of the Credit Facility is subject to ongoing compliance with certain financial covenants which include:

Maximum total indebtedness to total asset value of 60.0% at any time;

Minimum fixed charge coverage ratio of 1.50:1.00; and

Table of Contents

Minimum tangible net worth of \$821,211,200 plus 75% of net proceeds from equity issuances after June 30, 2010.

In addition, under the Credit Facility and Term Loan Facility, we are restricted from paying distributions on the Parent Company's common shares in excess of the greater of (i) 95% of funds from operations, and (ii) such amount as may be necessary to maintain the Parent Company's REIT status.

As of September 30, 2014, we were in compliance with all of our financial covenants and we anticipate remaining in compliance with all of our financial covenants.

At The Market Equity Program

Pursuant to our previous sales agreement with Cantor Fitzgerald & Co. (the Previous Sales Agent), dated April 3, 2009, as amended on January 26, 2011 and September 16, 2011 (as amended, the Previous Sales Agreement), we had a program to enable us to sell up to 20 million common shares in at the market offerings. On May 7, 2013, we terminated the Previous Sales Agreement with the Previous Sales Agent and entered into separate Equity Distribution Agreements (the Equity Distribution Agreements) with each of Wells Fargo Securities LLC; BMO Capital Markets Corp.; Jefferies LLC; Merrill Lynch, Pierce, Fenner & Smith Incorporated; and RBC Capital Markets, LLC (collectively, the Sales Agents) which enabled us to sell up to 12 million common shares in at the market offerings. On May 5, 2014, the Company amended each of the Equity Distribution Agreements to increase the number of common shares the Company may sell through the Sales Agents to up to 20 million.

During the nine months ended September 30, 2014, we sold a total of 13.2 million common shares under the Equity Distribution Agreements at an average sales price of \$18.19 per share, resulting in gross proceeds of \$239.8 million under the program. We incurred \$3.8 million of offering costs in conjunction with the 2014 sales. We used proceeds from the sales conducted during the nine months ended September 30, 2014 to fund acquisitions of storage facilities, repay outstanding debt and for general corporate purposes. As of September 30, 2014, 1.2 million common shares remained available for issuance under the Equity Distribution Agreements.

Recent Developments

On August 25, 2014, the Operating Partnership entered into an Agreement for Purchase and Sale with certain limited liability companies controlled by HSRE REIT I and HSRE REIT II, each Maryland real estate investment trusts, to acquire (the HSRE Acquisition) 26 self-storage facilities for an aggregate purchase price of \$223.0 million plus customary closing costs. As of September 30, 2014, the Company had made a deposit of \$5.0 million with respect to the HSRE Acquisition, which deposit is reflected in Other assets, net on the Company's consolidated balance sheets. The HSRE Acquisition will close in two tranches. The Company completed its due diligence on all of the facilities and closed on the first tranche of 22 facilities on November 3, 2014. The Company expects to close on the remaining four facilities no later than March 31, 2015.

Edgar Filing: CubeSmart - Form 10-Q

On October 2, 2014, we amended each of the Equity Distribution Agreements to increase the number of common shares the Company may sell through the Sales Agents to up to 30 million. We intend to use the net proceeds from the offering of the common shares pursuant to the Equity Distribution Agreements for general business purposes, including, without limitation, facility acquisitions, developments, joint ventures, capital expenditures, working capital and other general corporate purposes.

On October 20, 2014, the Parent Company completed its public offering of 7,475,000 common shares at a public offering price of \$19.33, which reflects the full exercise by the underwriters of their option to purchase 975,000 shares to cover over-allotments. We received approximately \$143.0 million in net proceeds from the offering after deducting the underwriting discount and other estimated offering expenses. We expect to use the net proceeds from the offering for general business purposes, including, without limitation, facility acquisitions, developments, joint ventures, capital expenditures, working capital and other general corporate purposes.

Table of Contents

Non-GAAP Financial Measures

NOI

We define net operating income, which we refer to as NOI, as total continuing revenues less continuing property operating expenses. NOI also can be calculated by adding back to net income (loss): interest expense on loans, loan procurement amortization expense, loan procurement amortization expense, early repayment of debt, acquisition related costs, equity in losses of real estate ventures, amounts attributable to noncontrolling interests, other expense, depreciation and amortization expense, general and administrative expense, and deducting from net income: income from discontinued operations, gains from disposition of discontinued operations, other income, gains from remeasurement of investments in real estate ventures and interest income. NOI is not a measure of performance calculated in accordance with GAAP.

We use NOI as a measure of operating performance at each of our facilities, and for all of our facilities in the aggregate. NOI should not be considered as a substitute for operating income, net income, cash flows provided by operating, investing and financing activities, or other income statement or cash flow statement data prepared in accordance with GAAP.

We believe NOI is useful to investors in evaluating our operating performance because:

- it is one of the primary measures used by our management and our facility managers to evaluate the economic productivity of our facilities, including our ability to lease our facilities, increase pricing and occupancy and control our property operating expenses;
- it is widely used in the real estate industry and the self-storage industry to measure the performance and value of real estate assets without regard to various items included in net income that do not relate to or are not indicative of operating performance, such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets; and
- we believe it helps our investors to meaningfully compare the results of our operating performance from period to period by removing the impact of our capital structure (primarily interest expense on our outstanding indebtedness) and depreciation of our basis in our assets from our operating results.

There are material limitations to using a measure such as NOI, including the difficulty associated with comparing results among more than one company and the inability to analyze certain significant items, including depreciation and interest expense, that directly affect our net income. We compensate for these limitations by considering the economic effect of the excluded expense items independently as well as in connection with our analysis of net income. NOI should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with GAAP, such as total revenues, operating income and net income.

FFO

Funds from operations (FFO) is a widely used performance measure for real estate companies and is provided here as a supplemental measure of operating performance. The April 2002 National Policy Bulletin of the National Association of Real Estate Investment Trusts (the White Paper), as amended, defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of real estate and related impairment charges, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

Management uses FFO as a key performance indicator in evaluating the operations of our facilities. Given the nature of our business as a real estate owner and operator, we consider FFO a key measure of our operating performance that is not specifically defined by accounting principles generally accepted in the United States. We believe that FFO is useful to management and investors as a starting point in measuring our operational performance because FFO excludes various items included in net income that do not relate to or are not indicative of our operating performance such as gains (or losses) from sales of real estate, gains from remeasurement of investments in real estate ventures, impairments of depreciable assets, and depreciation, which can make periodic and peer analyses of operating performance more difficult.

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies.

FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO should be compared with our reported net income and considered in addition to cash flows computed in accordance with GAAP, as presented in our Consolidated Financial Statements.

FFO, as adjusted

FFO, as adjusted represents FFO as defined above, excluding the effects of acquisition related costs, gains or losses from early extinguishment of debt, and non-recurring items, which we believe are not indicative of the Company's operating results. We present FFO, as adjusted because we believe it is a helpful measure in understanding our results of operations insofar as we believe that the items noted above that are included in FFO, but excluded from FFO, as adjusted are not indicative of our ongoing operating results. We also believe that the analyst community considers our FFO, as adjusted (or similar measures using different terminology) when evaluating us. Because other REITs or real estate companies may not compute FFO, as adjusted in the same manner as we do, and may use different terminology, our computation of FFO, as adjusted may not be comparable to FFO, as adjusted reported by other REITs or real estate companies.

The following table presents a reconciliation of net income to FFO and FFO, as adjusted, for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<i>Net income attributable to the Company's common shareholders</i>	\$ 6,978	\$ 14,840	\$ 16,390	\$ 13,994
Add (deduct):				
Real estate depreciation and amortization				
Real property - continuing operations	31,196	28,069	88,973	84,789
Real property - discontinued operations	-	727	-	2,386
Company's share of unconsolidated real estate venture	3,272	-	9,765	-
Gains from sales of real estate	-	(9,310)	(475)	(9,538)
Noncontrolling interests in the Operating Partnership	106	257	250	240
FFO	\$ 41,552	\$ 34,583	\$ 114,903	\$ 91,871
Add:				
Acquisition related costs	1,258	470	3,658	2,233
FFO, as adjusted	\$ 42,810	\$ 35,053	\$ 118,561	\$ 94,104

Edgar Filing: CubeSmart - Form 10-Q

Weighted-average diluted shares and units outstanding	154,265	140,387	149,345	138,962
---	---------	---------	---------	---------

Table of Contents

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements, financings, or other relationships with other unconsolidated entities (other than our co-investment partnerships) or other persons, also known as variable interest entities not previously discussed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments depend upon prevailing interest rates.

Market Risk

Our investment policy relating to cash and cash equivalents is to preserve principal and liquidity while maximizing the return through investment of available funds.

Effect of Changes in Interest Rates on our Outstanding Debt

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates for a portion of our borrowings through the use of derivative financial instruments such as interest rate swaps or caps to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market rates. The range of changes chosen reflects our view of changes which are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates chosen.

As of September 30, 2014, our consolidated debt consisted of \$1.1 billion of outstanding mortgages, unsecured senior notes and unsecured term loans that are subject to fixed rates, including variable rate debt that is effectively fixed through our use of interest rate swaps. As of September 30, 2014 there were no amounts of outstanding Credit Facility borrowings subject to floating rates. However, to the extent that we borrow on the revolving portion of the Credit Facility, we will then have debt subject to variable rates. Changes in interest rates have different impacts on the fixed and variable rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position, but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the net financial instrument position.

Edgar Filing: CubeSmart - Form 10-Q

If market rates of interest increase by 100 basis points, the fair value of our outstanding fixed-rate mortgage debt, unsecured senior notes and unsecured term loans would decrease by approximately \$57.1 million. If market rates of interest decrease by 100 basis points, the fair value of our outstanding fixed-rate mortgage debt, unsecured senior notes and unsecured term loans would increase by approximately \$62.1 million.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures (Parent Company)

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Parent Company carried out an evaluation, under the supervision and with the participation of its management, including its chief executive officer and chief financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)).

Table of Contents

Based on that evaluation, the Parent Company's chief executive officer and chief financial officer have concluded that the Parent Company's disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information required to be disclosed by the Parent Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the Parent Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in the Parent Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Controls and Procedures (Operating Partnership)

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Operating Partnership carried out an evaluation, under the supervision and with the participation of its management, including the Operating Partnership's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Operating Partnership's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act).

Based on that evaluation, the Operating Partnership's chief executive officer and chief financial officer have concluded that the Operating Partnership's disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information required to be disclosed by the Operating Partnership in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the Operating Partnership's management, including the Operating Partnership's chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in the Operating Partnership's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides information about repurchases of the Parent Company's common shares during the three months ended September 30, 2014:	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
July 1- July 31	62	\$ 18.55	N/A	3,000,000
August 1- August 31	3,250	18.74	N/A	3,000,000
September 1- September 30	-	-	N/A	3,000,000
Total	3,312	\$ 18.74	N/A	3,000,000

(1) Represents common shares withheld by the Parent Company upon the vesting of restricted shares to cover employee tax obligations.

(2) On September 27, 2007, the Parent Company announced that the Board of Trustees approved a share repurchase program for up to 3.0 million of the Parent Company's outstanding common shares. Unless terminated earlier by resolution of the Board of Trustees, the program will expire when the number of authorized shares has been repurchased. The Parent Company has made no repurchases under this program to date.

Table of Contents

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.1	Agreement for Purchase and Sale, dated August 25, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II (the HSRE Purchase Agreement). (filed herewith)
10.2*	Form of Amendment No. 2 to Equity Distribution Agreement, dated October 2, 2014, by and among CubeSmart, CubeSmart, L.P. and each of the Sales Agents, incorporated by reference to Exhibit 1.1. to CubeSmart's Current Report on Form 8-K, filed on October 2, 2014.
10.3	Amendment no. 1 to the HSRE Purchase Agreement, dated October 2, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II. (filed herewith)
10.4	Amendment no. 2 to the HSRE Purchase Agreement, dated October 7, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II. (filed herewith)
10.5	Amendment no. 3 to the HSRE Purchase Agreement, dated October 9, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II. (filed herewith)
10.6	Amendment no. 4 to the HSRE Purchase Agreement, dated October 13, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II. (filed herewith)
12.1	Statement regarding Computation of Ratios of Earnings to Fixed Charges of CubeSmart. (filed herewith)
12.2	Statement regarding Computation of Ratios of Earnings to Fixed Charges of CubeSmart L.P. (filed herewith)
31.1	Certification of Chief Executive Officer of CubeSmart as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
31.2	Certification of Chief Financial Officer of CubeSmart as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
31.3	Certification of Chief Executive Officer of CubeSmart, L.P., as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
31.4	Certification of Chief Financial Officer of CubeSmart, L.P., as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
32.1	Certification of Chief Executive Officer and Chief Financial Officer of CubeSmart pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
32.2	Certification of Chief Executive Officer and Chief Financial Officer of CubeSmart, L.P., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

Edgar Filing: CubeSmart - Form 10-Q

Table of Contents

<u>Exhibit No.</u>	<u>Exhibit Description</u>
101	The following CubeSmart and CubeSmart, L.P. financial information for the nine months ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. (filed herewith)
*	Incorporated herein by reference as above indicated.

Table of Contents

SIGNATURES OF REGISTRANT

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

CUBESMART
(Registrant)

Date: November 5, 2014

By: */s/ Christopher P. Marr*
Christopher P. Marr, Chief Executive Officer
(Principal Executive Officer)

Date: November 5, 2014

By: */s/ Timothy M. Martin*
Timothy M. Martin, Chief Financial Officer
(Principal Financial Officer)

Table of Contents

SIGNATURES OF REGISTRANT

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

CUBESMART, L.P.
(Registrant)

Date: November 5, 2014

By: */s/ Christopher P. Marr*
Christopher P. Marr, Chief Executive Officer
(Principal Executive Officer)

Date: November 5, 2014

By: */s/ Timothy M. Martin*
Timothy M. Martin, Chief Financial Officer
(Principal Financial Officer)

Table of Contents

EXHIBIT LIST

<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.1	Agreement for Purchase and Sale, dated August 25, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II (the HSRE Purchase Agreement).
10.3	Amendment no. 1 to the HSRE Purchase Agreement, dated October 2, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II.
10.4	Amendment no. 2 to the HSRE Purchase Agreement, dated October 7, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II.
10.5	Amendment no. 3 to the HSRE Purchase Agreement, dated October 9, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II.
10.6	Amendment no. 4 to the HSRE Purchase Agreement, dated October 13, 2014, by and among CubeSmart, L.P. and certain limited liability companies controlled by HSRE REIT I and HSRE REIT II.
12.1	Statement regarding Computation of Ratios of Earnings to Fixed Charges of CubeSmart.
12.2	Statement regarding Computation of Ratios of Earnings to Fixed Charges of CubeSmart L.P.
31.1	Certification of Chief Executive Officer of CubeSmart as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of CubeSmart as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chief Executive Officer of CubeSmart, L.P., as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Chief Financial Officer of CubeSmart, L.P., as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer of CubeSmart pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Executive Officer and Chief Financial Officer of CubeSmart, L.P., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following CubeSmart and CubeSmart, L.P. financial information for the nine months ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.