



ANNUAL
REPORT
2014

LAACO, LTD. 2014 ANNUAL REPORT

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LAACO, Ltd. is a California limited partnership. The Partnership acquires, develops, builds and manages Storage West self-storage facilities. Wholly owned subsidiaries of the Partnership own and operate The Los Angeles Athletic Club and California Yacht Club.

Financial information for LAACO, Ltd. is posted on the web site of OTC Markets Group, Inc. – an independent provider of financial information. To view this information, go to www.otcm Markets.com and enter our symbol “LAACZ.” Future financial reports and news releases will be provided to OTC Markets Group for posting on this web site. Financial information for prior years of LAACO, Ltd. is available upon written request at the Partnership’s principal offices.



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INDEPENDENT AUDITORS	Grant Thornton LLP 515 South Flower Street, 7th Floor Los Angeles, California 90071 (213) 627-1717

OFFICERS AND GENERAL PARTNERS OF LAACO, LTD.

PRESIDENT AND MANAGING PARTNER	Karen L. Hathaway
SENIOR VICE PRESIDENT	John K. Hathaway
SENIOR VICE PRESIDENT	Steven K. Hathaway
CHIEF FINANCIAL OFFICER	Bryan J. Cusworth
VICE PRESIDENT, SECRETARY, GENERAL COUNSEL	Charles E. Michaels
VICE PRESIDENT	Carla L. Grose
VICE PRESIDENT	Stuart J. Lava
VICE PRESIDENT	John R. Wolff
VICE PRESIDENT	Fred G. Zepeda
MANAGING GENERAL PARTNER OF LAACO, LTD.	Stability LLC
MANAGING MEMBERS OF STABILITY LLC	Frank G. Hathaway, Chairman
	Karen L. Hathaway, Vice Chairman
	Christopher J. Harrer
	John K. Hathaway
	Steven K. Hathaway
	Thomas S. Hathaway
	Charles E. Michaels
	Barbara H. Wolff
GENERAL PARTNER OF LAACO, LTD.	The Los Angeles Athletic Club, Inc.

Your Company performed extremely well during 2014 in both financial and operational terms, generating increased unitholder value and strengthening our capabilities to achieve continuing long-term growth. We achieved this by substantially expanding our portfolio of properties, strengthening our presence in new geographic markets, implementing new marketing initiatives, and enhancing the skills of our people to attract and retain customers.

Consolidated revenues increased 7%, to \$65.5 million, and operating income increased 9%, to \$16.3 million. Both of the Company's divisions—Self Storage and Clubs—contributed to these results. Net income climbed to \$21 million, which includes a large gain from the sale of surplus real property late in the year.

Our Storage West self-storage group consisted of 49 operating facilities at yearend, two of which are co-owned with a partner. Storage West operations are geographically concentrated in Southern California; Phoenix, Arizona; Las Vegas, Nevada; and Houston, Texas. All four regions generated strong operating results, with all of our facilities posting increases for the year in both average rents and average occupancy.

Same-store results for Storage West showed positive growth in revenue. ("Same-store" properties are facilities that have been operating a full two years as of December 31 of the year reported, excluding co-owned properties.) Rent revenue increased 7.6% for the 46 facilities included in our same-store results for 2014, thanks to continued increases in both average rent per square foot and average occupancy. At yearend, average rent per square foot was \$13.97, and average occupancy was 83%—noteworthy given our recent growth profile through ground-up development.

During 2014 we continued to execute our plans to strategically expand Storage West's presence in the Houston area. We entered that market in 2012 with the acquisition of an existing storage facility. After exploring a number of potential acquisitions without finding any that met our criteria for value and price, we focused on development and found numerous opportunities to acquire land, entitle, and build self-storage facilities in the Houston region.

During 2014 we began construction of our first self-storage development project there, located in an area near downtown Houston that is undergoing revitalization. The facility is nearing completion as of this writing. We recently completed entitlement and design work on two additional sites in Houston with significant new housing nearby, both of which are now under construction.

We are also undergoing entitlement work and planning for two more projects in the greater Houston area, on properties we acquired during 2014. These are scheduled to open in 2016 and 2017. The five pipeline projects in Houston together represent an investment of \$32 million, and will add approximately 350,000 square feet of rentable space to Storage West. As of this writing, an additional site is under contract, pending local government approvals.

In December of 2014 we acquired an operating facility in Mesa, Arizona. This acquisition added 62,000 square feet of rentable indoor storage space, plus 16,000 square feet of RV storage, to our previous portfolio of 12 storage facilities in the greater Phoenix region.

This acquisition was structured as part of a tax-deferred exchange, in conjunction with the sale of surplus real property in the South Park area of Downtown Los Angeles. That property, which we sold for \$470 per square foot, was acquired in the 1970s for \$11 per square foot. For decades it had been leased to third parties who operated a surface parking lot. With the completion of the tax-deferred exchange, we leveraged the appreciated value of that land into a storage facility plus two of our Houston development sites—a move that will generate far more income than could be expected from parking.

We continue to be mindful of the need to appeal to prospective customers in the highly competitive self-storage industry. Our well-located older properties can generate significantly increased profitability when we invest in refurbishment, or in some cases, major redevelopment. We are currently redeveloping three Storage West facilities, demolishing portions of these facilities and constructing new buildings or adding to existing buildings. Two of these projects are located in Orange County, California and a

third is in Phoenix, Arizona. The entitlement process for these redevelopment projects is protracted. We received government approvals late in 2014 to proceed on our Phoenix storage facility, and construction has just commenced. One of the Orange County projects obtained final approvals after yearend; we are awaiting approval for the second Orange County redevelopment.

With the completion over the next couple of years of the projects now in our planning, redevelopment and construction pipeline, we will add in excess of 500,000 square feet of modern, attractive and efficient rentable space to our Storage West portfolio, representing a 13% increase in the net-rentable size of the portfolio. Notably, we will have accomplished this at a cost significantly below what we would have had to pay to purchase existing facilities.

To fill that additional space, and to maintain occupancy in our existing space, we of course need to attract and retain customers. To accomplish that, our people focus intensively on marketing and customer service. We continually enhance the Storage West online presence, which is today the primary way prospective customers find and interact with us. This includes optimizing our website's capabilities, upgrading our mobile presence, utilizing targeted online advertising channels, and much more.

During 2014 we decided to take a fresh look at the Storage West branding, believing that a more contemporary logo and color palette would connect more effectively with today's consumers and help increase our visibility in the competitive self-storage market. The creative portion of that process is complete, the appropriate trademark filings are underway, and we anticipate introducing the new branding by mid-year.

Once the customer visits one of our facilities, it is the on-site team member who is the face of Storage West, and we invest time, effort and resources to help them succeed. We have two full-time trainers, backed by senior training managers and facility training managers in each region. We also bring over 130 of our people together for annual training sessions. We accompany this training with awards for special achievement, which I am pleased to say are earned by a

gratifying number of our people. Thanks to our productive, customer-focused personnel, Storage West enjoys very favorable levels of customer service which contributes importantly to our occupancy levels.

Financing for the construction, redevelopment and refurbishment projects in the Storage West pipeline is sourced both from cash generated from operations and from bank debt. During the fourth quarter of 2014 the Company took advantage of attractive interest rates to refinance \$29 million of debt that was due to expire in 2015, and arranged a facility for an additional \$25 million of draw-down debt. All of this debt is floating rate, but it is hedged to limit upside exposure to interest rates. Both loans have favorable ten-year terms, and are secured by just a few of our Storage West facilities. In 2014 the Company also obtained a new, two-year, \$20 million credit line. All three pieces of debt were issued by a major bank. The Company is now benefitting from the overall reduction in its borrowing costs, saving approximately \$90,000 per month at current interest rates.

Our financial statements are, as required, reported pursuant to GAAP ("Generally Accepted Accounting Principles in the United States of America"). But the tax structure of our Partnership often enables us to pass through tax benefits directly to unitholders, providing value to them that is not readily apparent on the financial statements. During 2014, the Partnership evaluated the impact of the new Tangible Property Regulations which became effective for taxable years beginning January 1, 2014. These regulations concern the capitalization and expensing of amounts paid to improve or repair property and equipment; and the retirement of depreciable property. As a result, the Partnership implemented an accounting method change for the treatment of Tangible Property and recognized a sizable, favorable tax deduction for 2014.

LAACO's wholly owned subsidiaries consist of The Los Angeles Athletic Club and California Yacht Club. These legacy businesses, which are accretive to our operations, represent more than a century of company history: The Los Angeles Athletic Club was founded in 1880, and California

Yacht Club in 1922. Both clubs enjoyed a resurgence in membership in 2014, with The Los Angeles Athletic Club benefitting notably from the continued revitalization and building boom in Downtown Los Angeles.

The significant growth in popularity of Downtown Los Angeles as a residential area and as an entertainment center, added to its traditional status as a governmental and a commercial center, are creating a vibrancy that is benefitting businesses like The Los Angeles Athletic Club. In response to this revival, we have continued our program of refurbishing and renewing the building and the facilities at The Los Angeles Athletic Club. In 2014 we began a two-year renovation of nearly 30,000 square feet of locker room, spa and athletic facilities that will help return the Club to the trophy-property status it enjoyed in years past. The approximately \$10 million project is being financed through cashflow from club operations, supported by an intercompany term loan from the Partnership.

2014 saw the retirement, after nearly four decades of continuous service, of the first woman to serve on the governing boards of the Partnership and its predecessor corporation. Sylvia H. Eisenberg began her service when she was elected to the Board of Directors of LAACO in 1975, a decade prior to its conversion to a Partnership. Her most recent position was as a Managing Member of Stability LLC, LAACO'S Managing General Partner. Sylvia H. Eisenberg's dedication, distinguished service and counsel are deeply appreciated. Following her announced retirement, Charles E. Michaels, who has served LAACO for nearly a quarter century as general counsel and corporate secretary, was elected to the Stability LLC Board of Managing Members.

Our club operations represent the history of LAACO, as one of the oldest companies in Los Angeles, while our much newer and expanding self-storage business dominates our present operations and our future growth. Both, however, exemplify LAACO's core strategy of managing existing assets while investing in new ones in ways that will build current and future value. Not all of those assets are land, brick and mortar. The most valuable contributors to your Company's

success are people: the customers who add life to our properties; our dedicated employees who create an optimal experience for those customers; and you, our unitholders, whose loyalty and support are our most appreciated reward.



Karen L. Hathaway
President and Managing Partner

FINANCIAL HIGHLIGHTS

	2014	2013	2012	2011	2010
Operating Data:					
Revenues	\$65,470,000	\$61,203,000	\$57,015,000	\$53,372,000	\$52,597,000
Operating income	16,275,000	14,911,000	13,749,000	13,317,000	13,436,000
Other income (expense)	4,882,000	(1,072,000)	(1,236,000)	(1,721,000)	(1,717,000)
Net income	21,157,000	13,839,000	12,513,000	11,596,000	11,719,000
Balance Sheet Data:					
Investment in storage properties at cost	\$246,279,000	\$232,898,000	\$231,068,000	\$215,078,000	\$213,345,000
Total assets	220,296,000	206,935,000	206,110,000	199,653,000	196,780,000
Total liabilities	47,840,000	45,763,000	49,173,000	47,034,000	47,011,000
Partners' capital	172,456,000	161,172,000	156,937,000	152,619,000	149,769,000
Cash Flows Data:					
Net cash provided by operating activities	\$21,616,000	\$22,604,000	\$18,887,000	\$17,906,000	\$18,669,000
Cash distributions to partners	11,073,000	9,554,000	8,073,000	8,095,000	7,957,000
Per Unit Data:					
Net income	\$ 124.20	\$ 81.07	\$ 72.84	\$ 67.31	\$ 67.70
Cash distributions to partners	65.00	56.00	47.00	47.00	46.00
Partners' capital at end of year—historical basis	1,012.59	945.99	915.70	886.93	868.32

FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of federal securities laws. Statements other than historical facts should be considered as forward-looking statements. Words such as “anticipate,” “plan,” “expect,” “continue,” “believe,” and “aim” and other similar expressions identify forward-looking statements that refer to plans and objectives for future operations, future financial performance, forecasts or other predictive statements. Such statements involve known and unknown risks, uncertainties, and other factors, which may cause actual results and the performance of the Company to be materially different from those expressed in the forward looking statements contained in this report.

You should consider risk factors that may impact the Company’s future results, performance and cash flows including, but not limited to, general risks associated with the ownership and operation of clubs and real estate, including difficulties in acquiring, developing, remodeling, constructing, integrating or managing acquired self-storage properties; risks associated with the affects of downturns in the national or local economies in which we invest in or operate, including delays in development and decreased revenues, and the economic health of our customers; the impact of storage competition which could affect rents, occupancy levels and other aspects of operations; customer and employee related claims; environmental risks and various hazards, such as earthquakes, hurricanes, flooding, windstorms, environmental contamination, and fires; difficulties in managing information technology, or system failures, or the disruption of operations through security breaches; the impact of adverse governmental actions or changes in tax, real estate and zoning, licensing, leasing or regulatory environment and compliance including adverse changes in tax law, such as the taxation of publicly traded partnerships, or a failure to qualify as a partnership for tax purposes, or other changes in taxes or corporate or personal tax rates which could increase expenses and reduce profitability and cash flows; and difficulties in raising capital at a reasonable cost, which would impede the Company’s ability to grow or reduce its access to credit markets.

We disclaim any obligation to publicly release any revisions to these statements that may reflect new estimates or circumstances after the date of this report, except where expressly required by law. Accordingly, you should use caution in relying on any forward-looking statements to anticipate future results.



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Managing General Partner
and Partners of LAACO, Ltd.

We have audited the accompanying consolidated financial statements of LAACO, Ltd. and subsidiaries (collectively, the “Company”) which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in partners’ capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LAACO, Ltd. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Los Angeles, California
March 31, 2015

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash	\$ 8,886,000	\$ 6,309,000
Accounts receivable, less allowance for doubtful accounts (2014 - \$382,000; 2013 - \$345,000)	1,572,000	1,548,000
Inventories	215,000	232,000
Prepaid expenses and other current assets	1,888,000	1,397,000
TOTAL CURRENT ASSETS	12,561,000	9,486,000
Property and equipment, net	193,074,000	184,024,000
Investment in joint ventures	2,554,000	2,651,000
Other assets	12,107,000	10,774,000
TOTAL ASSETS	\$220,296,000	\$206,935,000
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 6,413,000	\$ 4,483,000
Payroll, sales and local taxes	739,000	826,000
Prepaid dues, rentals and deposits	2,969,000	2,729,000
Notes payable, current portion	1,160,000	1,109,000
TOTAL CURRENT LIABILITIES	11,281,000	9,147,000
Other long-term liabilities	8,719,000	9,219,000
Notes payable, net of current portion	27,840,000	27,397,000
TOTAL LIABILITIES	47,840,000	45,763,000
Commitments and contingencies – see notes		
Partners' capital: 170,312 and 170,373 units outstanding, respectively	172,456,000	161,172,000
TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$220,296,000	\$206,935,000

The accompanying notes are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the years ended December 31,	
	2014	2013
REVENUES		
Real property investments and rentals	\$43,852,000	\$40,783,000
Club operations	21,618,000	20,420,000
	65,470,000	61,203,000
COST AND EXPENSES		
Operating expenses	40,763,000	37,669,000
Cost of goods sold	2,064,000	1,955,000
Depreciation and amortization	6,368,000	6,668,000
	49,195,000	46,292,000
OPERATING INCOME	16,275,000	14,911,000
OTHER INCOME (EXPENSE)		
Gain (loss) on sale of assets	6,969,000	(53,000)
Joint venture income	508,000	458,000
Interest expense, net	(1,336,000)	(1,556,000)
Unrecovered development costs	(430,000)	—
Settlement of interest rate swaps	(766,000)	—
Income tax (expense) benefit attributable to subsidiaries	(63,000)	79,000
	4,882,000	(1,072,000)
NET INCOME	21,157,000	13,839,000
OTHER COMPREHENSIVE INCOME		
Unrealized gain on interest rate hedges	1,274,000	1,052,000
TOTAL COMPREHENSIVE INCOME	\$22,431,000	\$14,891,000
NET INCOME PER UNIT	\$124.20	\$81.07
WEIGHTED AVERAGE PARTNERSHIP UNITS OUTSTANDING	170,351	170,698



CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

	For the years ended December 31,	
	2014	2013
Balance at beginning of year	\$161,172,000	\$156,937,000
Net income	21,157,000	13,839,000
Cash distributions to partners	(11,073,000)	(9,554,000)
Partnership unit repurchases	(197,000)	(1,102,000)
Units issued under incentive equity plan	123,000	—
Other comprehensive income:		
Unrealized gain on interest rate hedges	1,274,000	1,052,000
Balance at end of year	\$172,456,000	\$161,172,000

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$21,157,000	\$13,839,000
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on sale of assets	(6,969,000)	53,000
Joint venture income	(508,000)	(458,000)
Unrecovered development costs	430,000	—
Settlement of interest rate swaps	766,000	—
Depreciation and amortization	6,368,000	6,668,000
Incentive equity based compensation accrual	206,000	123,000
Deferred tax expense (benefit)	171,000	(154,000)
(Increase) decrease in accounts receivable, net	(24,000)	339,000
(Increase) in prepaid expenses and other current assets	(270,000)	(429,000)
(Increase) decrease in other assets	(844,000)	582,000
Increase in accounts payable, accrued expenses and other current liabilities	513,000	1,619,000
Increase in other long-term liabilities	620,000	422,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,616,000	22,604,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property and equipment	(14,816,000)	(4,398,000)
Proceeds from sale of property and equipment	7,141,000	—
Distributions from joint ventures	605,000	555,000
NET CASH USED IN INVESTING ACTIVITIES	(7,070,000)	(3,843,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowing, net of debt issuance costs	28,573,000	—
Repayment of notes payable	(28,506,000)	(1,055,000)
Cash paid to settle interest rate swaps	(766,000)	—
Net repayments under credit line	—	(2,500,000)
Net repayments on insurance policy loans	—	(4,000)
Cash distributions to partners	(11,073,000)	(9,554,000)
Partnership unit repurchases	(197,000)	(1,102,000)
NET CASH USED IN FINANCING ACTIVITIES	(11,969,000)	(14,215,000)
NET INCREASE IN CASH	2,577,000	4,546,000
CASH:		
Beginning of year	6,309,000	1,763,000
End of year	\$ 8,886,000	\$ 6,309,000
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 1,530,000	\$ 1,552,000
Cash paid for income taxes	—	312,000
Supplemental disclosures of non-cash activities:		
Unrealized gain on interest rate hedges	\$ 1,274,000	\$ 1,052,000
Units issued under incentive equity plan	123,000	—

The accompanying notes are an integral part of these consolidated financial statements.

NATURE OF OPERATIONS:

LAACO, Ltd. (the “Partnership”) is a California limited partnership formed in December 1986. The Partnership’s principal business activities include the acquisition, development, ownership and operation of self-storage facilities, which offer storage spaces for rent, usually on a month-to-month basis, for personal and business use. As of December 31, 2014, the Partnership had direct and indirect equity interests in 49 operating self-storage facilities under the “Storage West” registered trade name in Southern California, Arizona, Nevada and Texas. In addition, two facilities are under construction and three facilities are in pre-construction development in Texas. The Company also has two other parcels of land held for future development.

In addition, to a lesser extent, the Partnership has interests in other real estate activities. The Partnership owns land, buildings and marina facilities that are leased to two, wholly-owned subsidiaries of the Partnership: The LAAC Corp., which operates The Los Angeles Athletic Club (LAAC) (a membership club consisting of athletic facilities, food and beverage operations and a 72-room hotel) and California Yacht Club Inc., which operates California Yacht Club (a membership club consisting of sports facilities, food and beverage operations and a 300-slip marina). At December 31, 2014, the Partnership also had interests in two parking facilities located adjacent to the LAAC building. The Partnership and its subsidiaries are collectively referred to as the “Company.”

ACCOUNTING POLICIES:**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of the Partnership and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INVENTORIES

Inventories, which consist primarily of food and beverage and club merchandise, are stated at cost (first-in, first-out) which is not in excess of market.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Costs associated with the development, construction and improvement of property and equipment are capitalized. Interest and property taxes incurred during the construction period are also capitalized. Capitalized interest during the years ended December 31, 2014 and 2013 was \$59,000 and \$0, respectively. In 2014, in response to changing market conditions, the Company significantly revised its redevelopment plans for two self-storage facilities in California and one in Arizona. As a result of this decision, certain previously incurred development costs for these projects were written off, resulting in one-time impairment charges of \$430,000. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the asset, which are generally 15 to 40 years for buildings and improvements and 3 to 7 years for furniture and equipment.

When a self-storage facility is acquired, we allocate the net acquisition cost (consisting of cash paid to third parties and the fair value of any liabilities assumed) to the underlying land, buildings, equipment and identified intangible assets based upon their respective individual estimated fair values. In 2014, the Company acquired one self-storage facility in Arizona for \$6,511,000 in cash. The fair value of the identified intangible assets acquired was not material.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes indicate that the carrying value of the assets

may not be recoverable. The assessment is performed based on the undiscounted future net operating cash flows compared to the assets' net carrying values. If the net carrying value of the assets exceeds the future cash flows, an impairment loss would be recorded. There were no significant impairment charges incurred in 2014 and 2013.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments for disclosure purposes:

Grantor trust: The carrying amount for the grantor trust approximates its fair value due to the relatively short period to maturity of this investment.

Short- and long-term debt: The carrying amounts of the Company's notes payable approximate their fair value based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Interest rate hedge agreements: The fair value of the interest rate hedge agreements are the amounts at which they could be settled based on market data at December 31, 2014 and 2013, respectively.

REVENUE RECOGNITION

Revenue on real property investments, store rentals and slip rentals is recognized on a straight-line basis over the applicable rental period. The majority of our customers rent under month-to-month rental agreements and revenue is recognized at the contracted rate for each month occupied. Revenue related to customers who sign longer period rental agreements is recognized ratably over the term of the rental period given appropriate consideration to any promotional rentals. Revenue from monthly club membership fees are recognized as earned. Revenue from club registration fees is recognized when payment is received. Other club revenues, consisting primarily of guest room rentals and food and beverage sales, are generally recognized as services are performed. Taxes assessed on sales by various governmental authorities are not recognized in revenues.

ADVERTISING COSTS

The Company incurs advertising costs primarily attributable to online digital marketing campaigns, print media and other advertising which are expensed as incurred. The Company recognized \$1,018,000 and \$892,000 in advertising expense for the years ended December 31, 2014 and 2013, respectively.

INCOME TAXES

Under the Internal Revenue Code, in order to continue to be treated as a partnership for tax purposes, the Partnership must derive at least 90 percent of its total gross income from income related to real property, interest and dividends. For the fiscal years ended December 31, 2014 and 2013, the Partnership was in compliance with the gross income test, and no special measures are expected to be required to enable the Partnership to maintain its partnership status and associated tax treatment.

Effective January 1, 1998, the Company incorporated its club operations into wholly-owned subsidiaries. Under this structure, profits from the subsidiaries are taxed separately. The subsidiaries account for income taxes in accordance with ASC Topic 740 "Income Taxes." The provisions for income taxes include amounts currently payable and amounts deferred to or from other years as a result of differences in the timing of income or expenses for financial reporting and tax purposes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

ASC Topic 740 also requires the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements at December 31, 2014 and 2013, respectively. Interest and penalties related to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2014 and 2013, the Company had no interest and penalties related to uncertain tax positions.

COMPREHENSIVE INCOME

Total comprehensive income represents net income, adjusted for unrealized gains and losses on interest rate hedges, as reflected on our Consolidated Statements of Income and Comprehensive Income. The accumulated other comprehensive loss at December 31, 2014 and 2013 was \$(630,000) and \$(1,904,000), respectively.

NET INCOME PER PARTNERSHIP UNIT

Net income per partnership unit is based on 170,351 and 170,698 weighted average units outstanding during 2014 and 2013, respectively.

SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 31, 2015, the date this Annual Report was issued.

OTHER DISCLOSURES:

THE GENERAL PARTNERS

The managing general partner of the Partnership is Stability LLC (a Delaware limited liability company) and the general partner is The Los Angeles Athletic Club, Inc. Under the terms of the Partnership agreement, Stability LLC is paid general partner management fees of one percent of the aggregate annual amount of cash distributions made to holders of LAACO, Ltd. units and an additional one half of one percent of the gross revenues of the Partnership. The Partnership also reimburses Stability LLC for certain management, legal and administrative costs incurred by Stability LLC related to Partnership matters. Certain management, legal and administrative services are provided to Stability LLC at no charge. General partner management fees and reimbursement of expenses totaled \$547,000 and \$503,000 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the Company had not yet paid \$96,000 and \$81,000, respectively, to Stability LLC which amounts are included in "accounts payable and accrued expenses" in the accompanying Consolidated Balance Sheets.

BUSINESS SEGMENTS

The Company has two principal business segments: real property investments and rentals, and club operations.

	Revenues		Net Income	
	2014	2013	2014	2013
Real property investments and rentals	\$44,547,000	\$41,484,000	\$20,998,000	\$13,716,000
Club operations (a)	21,618,000	20,420,000	159,000	123,000
Less intercompany transactions (b)	(695,000)	(701,000)	—	—
	\$65,470,000	\$61,203,000	\$21,157,000	\$13,839,000

(a) The 2014 and 2013 net income for club operations is after income tax (expense) benefit of \$(63,000) and \$79,000, respectively.

(b) Intercompany transactions relate principally to real property rents charged by the Partnership to club operations and interest on intercompany borrowings by club operations.

	Assets		Capital Expenditures		Depreciation and Amortization	
	2014	2013	2014	2013	2014	2013
Real property investments and rentals	\$213,769,000	\$200,618,000	\$13,824,000	\$3,462,000	\$5,553,000	\$5,760,000
Club operations	6,527,000	6,317,000	992,000	936,000	815,000	908,000
	\$220,296,000	\$206,935,000	\$14,816,000	\$4,398,000	\$6,368,000	\$6,668,000

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2014 and 2013, consist of the following:

	2014	2013
Land	\$ 81,151,000	\$ 76,710,000
Buildings and improvements	171,124,000	166,087,000
Furniture and equipment	26,759,000	26,204,000
Construction in progress	5,972,000	1,099,000
	285,006,000	270,100,000
Less accumulated depreciation and amortization	(91,932,000)	(86,076,000)
	\$193,074,000	\$184,024,000

INVESTMENT IN JOINT VENTURES

The Partnership is the managing member of two limited liability companies (the “LLCs”) formed in 2001. The other limited liability member of each LLC is an unrelated California real estate development company. That limited liability member contributed the land and other improvements to each LLC and, in exchange, received a 50% interest in the LLC based upon a formula and the fair value of the property, as set forth in the LLC agreements. The Company contributed cash to construct one self-storage facility for each LLC in exchange for its 50% interest. The Company operates and manages the facilities, and receives a management fee for its services. Major operating decisions affecting the LLCs require the agreement of both parties.

As of December 31, 2014 and 2013, the Company’s investment was \$2,554,000 and \$2,651,000, respectively, in these joint ventures. As of December 31, 2014 and 2013, total assets (unaudited) of these two joint ventures were \$5,264,000 and \$5,422,000, respectively. For the year ended December 31, 2014 and 2013, total revenues and net income (unaudited) for these two joint ventures were \$2,085,000 and \$1,924,000 and \$1,016,000 and \$916,000, respectively.

The Company’s pro rata portion of joint venture income was \$508,000 for the year ended December 31, 2014 and \$458,000 for the year ended December 31, 2013. The Company evaluates its joint venture arrangements under ASC Topic 810, “Consolidation,” on an annual basis. The Company accounts for the joint venture arrangements under the equity method as they do not meet the criteria for consolidation.

CREDIT LINE

In September 2014, the Company entered into a new \$20 million uncollateralized credit line available for purchase, construction and improvement of self-storage facilities, repayment of existing debt and for short term working capital needs. The credit line, which accrues interest at Libor plus 1.00%, expires in September 2016. There are no commitment fees or loan points associated with this credit facility. The credit line agreement contains customary representations, warranties and events of default and requires the Company to comply with various affirmative and negative covenants including certain financial ratios such as, minimum EBITDA, minimum net worth, etc. As of December 31, 2014, the Company had no outstanding borrowings under the credit line and was in compliance with the covenants. At December 31, 2013, the Company had no outstanding borrowings under a previous \$20 million credit line that expired in July 2014.

NOTES PAYABLE

Notes payable at December 31, 2014 and 2013, consists of the following:

	2014	2013
Mortgage notes payable, repaid in December 2014 (a)	\$ –	\$ 28,506,000
Mortgage note payable (b)	29,000,000	–
	29,000,000	28,506,000
Less current portion	(1,160,000)	(1,109,000)
	\$27,840,000	\$27,397,000

- (a) As of December 31, 2013, the Company had 4 mortgage notes payable to a bank totaling \$28,506,000. The mortgage notes payable were, collectively, collateralized by five self-storage properties that had a combined net book value of \$19,893,000 at December 31, 2013. All of the mortgage notes payable required quarterly principal payments, matured in 2015 (\$24,348,000) or 2019 (\$4,158,000) and accrued interest at variable rates based on the Libor rate plus 1.12% to 1.75%. In December 2014, all four notes payable were repaid with proceeds from a new mortgage note payable with a different bank.

For three of the mortgage notes payable totaling \$24,348,000 at December 31, 2013, the Company had entered into interest rate swap agreements with the bank. These agreements effectively fixed the interest rate of the variable rate debt at rates ranging from 5.55% to 5.86%. In December 2014, these interest rate swap agreements were terminated upon repayment of the related notes payable.

For the fourth mortgage note payable totaling \$4,158,000 at December 31, 2013, the Company had entered into an interest rate corridor/cap agreement which effectively hedged the variable rate debt at different thresholds through November 2019. Upon repayment of this note payable in December 2014, the interest rate corridor/cap agreement was transferred to the new mortgage note payable described below.

- (b) In December 2014, the Company entered into a new \$29 million, ten-year mortgage note payable with a bank, proceeds of which were used principally to repay other mortgage notes payable as described above. Principal and interest payments are due monthly with any unpaid principal and interest due December 2024. Interest is at a variable rate based on the Libor rate plus 1.25% (1.41% at December 31, 2014).

The Company has three interest rate hedging agreements with the bank to effectively hedge the interest rate of this variable rate debt:

The first hedge agreement is the interest rate corridor/cap agreement transferred from the repaid mortgage note payable described above. This agreement had a notional amount in December 2014 of \$3,936,000 and effectively hedges the variable rate debt at different thresholds through November 2019. If the Libor rate is less than 4%, the Company will pay variable interest rates based on Libor plus 1.25%. If the Libor rate is between 4% and 6%, the Company will pay interest at 5.25%. If the Libor rate is between 6% and 12%, the Company will pay variable interest rates based on Libor minus .75%. If the Libor rate is greater than 12%, the Company will pay interest at 11.25%.

The second hedge agreement is an interest rate cap agreement with a beginning notional amount in December 2014 of \$24,968,000 that places a cap of 4% on the Libor rate through December 2016, resulting in an interest rate that will not exceed 5.25%.

The third hedge agreement is a forward-start interest rate swap agreement commencing December 2016 for the remaining 8 year term of the mortgage note payable. This agreement effectively fixes the interest rate of the variable rate debt at 4.02%.

In December 2014, the Company also entered into a new \$20 million draw-down mortgage note payable with the same bank. Under the terms of this note payable, the Company is permitted to borrow, on a non-revolving basis, up to \$20 million through December 2016, at which time, the outstanding balance on the note payable will convert to an eight-year mortgage note payable. Monthly interest-only payments are required through December 2016, followed by monthly principal and interest payments, with any unpaid principal and interest due December 2024. The Company had no outstanding amounts under this note payable as of December 31, 2014. In conjunction with this loan agreement, the Company entered into an interest rate corridor/cap agreement with the bank which effectively hedges the interest rate on \$15 million of the variable rate debt at different thresholds beginning December 2016. Through November 2016, the Company will pay a variable interest rate based on Libor plus 1.25%. Beginning December 2016, if the Libor rate is less than 4%, the Company will continue to pay a variable interest based on Libor plus 1.25%. If the Libor rate is between 4% and 6%, the Company pays interest at 5.25%. If the Libor rate is between 6% and 8%, the Company will pay a variable interest rate based on Libor minus .75%. If the Libor rate is greater than 8%, the Company will pay interest at 7.25%.

The mortgage note payable, draw-down mortgage note payable and the forward-start swap agreement are collateralized by five self-storage properties with a total net book value of \$18,981,000 at December 31, 2014. The scheduled repayments of notes payable outstanding at December 31, 2014, are summarized as follows:

2015	\$ 1,160,000
2016	1,160,000
2017	1,160,000
2018	1,160,000
2019	1,160,000
thereafter	23,200,000
	<hr/>
	\$29,000,000

DERIVATIVE FINANCIAL INSTRUMENTS

The Company follows the guidance under ASC Topic 815 "Derivatives and Hedging" in accounting for derivative instruments and hedging activities included in its consolidated financial statements.

Derivative financial instruments are recorded as either assets or liabilities on the balance sheet and re-measured at fair value at each reporting date. The fair value adjustments will affect either other comprehensive income or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company limits these risks by following established risk management policies and procedures including the use of derivatives. For interest rate exposures, derivatives are used primarily to hedge against exposure to floating interest rates and manage the cost of borrowing obligations. The Company does not engage in any derivative instrument trading activity. Credit risk associated with the Company's derivatives is limited to the risk that a derivative counterparty will not perform in accordance with the terms of the contract. Exposure to counterparty credit risk is considered low because these agreements have been entered into with institutions with strong credit ratings, and they are expected to perform fully under the terms of the agreements.

At December 31, 2013, the Company had three interest rate swap agreements to manage exposure to interest rates on certain of its variable rate debt that was repaid in December 2014. Under the terms of the three interest rate swap agreements, the Company made quarterly fixed rate payments to the counterparty calculated based on the notional amount at a fixed rate (5.551% or 5.86%) while the counterparty was obligated to make quarterly floating rate payments to the Company based on the Libor rate. In December 2014, in connection with the repayment of its mortgage notes payable, the Company paid \$766,000 to terminate the three interest rate swaps, which amount is included in "settlement of interest rate swaps" in the accompanying Consolidated Statements of Income and Comprehensive Income.

At December 31, 2014, the Company had four interest rate hedging agreements to manage its exposure to interest rates on its outstanding variable rate debt:

- (a) Under the terms of the interest rate corridor/cap agreement, which commenced in 2009, the Company makes quarterly interest payments to the bank based on Libor plus 1.25%. If the Libor rate exceeds 4.00%, the counterparty will be required to make quarterly interest payments to the Company based on the level that Libor exceeds 4.00%.
- (b) Under the terms of the two interest rate cap and corridor/cap agreements entered into in December 2014, the Company makes monthly interest payments to the bank based on the Libor rate plus 1.25%. If the Libor rate exceeds 4%, the counterparty will be required to make monthly interest payments to the Company based on the levels that Libor exceeds 4%.
- (c) Under the terms of the forward-start interest rate swap agreement entered into in December 2014, the Company will make monthly fixed rate payments to the counterparty, commencing in December 2016, calculated based on the

notional amount at a fixed rate of 2.77% (all-in rate of 4.02%) while the counterparty is obligated to make monthly floating rate payments to the Company based on the Libor rate.

The notional amount of each of the interest rate hedge agreements is scheduled to decline over the related terms of the loan agreements consistent with the scheduled principal payments.

These interest rate hedge agreements are designated as cash flow hedges. In 2014 and 2013, the fixed interest rates under the interest rate swap agreements exceeded the variable interest rates paid to the bank. Accordingly, the interest rate swaps resulted in additional interest costs of \$1,074,000 and \$1,092,000 respectively, which was recognized as additional interest expense. At December 31, 2014 and 2013, the Company recorded a liability of \$413,000 and \$1,750,000, respectively, as the fair value of the interest rate swaps, which amounts are included in “other long-term liabilities.” At December 31, 2014 and 2013, the Company recorded an asset of \$328,000 and \$48,000, respectively, as the fair value of the interest rate corridor/cap agreements, which amount is included in “other assets.” The Company applies the hypothetical derivative method for testing effectiveness of these cash flow hedges. As of December 31, 2014, no derivative ineffectiveness was identified.

Changes in unrealized gains and losses of the interest rate hedge agreements are recognized as “other comprehensive income” and reflected in Partners’ Capital. Any future ineffectiveness in the Company’s derivative investments designated as cash flow hedges would be reported in earnings in the period it was recognized. The Company does not expect to reclassify any amounts from other comprehensive income to earnings within the next 12 months.

The following table summarizes the notional values, fair values and other characteristics of the Company’s derivative financial instruments at December 31, 2014. The notional value at December 31, 2014 provides an indication of the extent of the Company’s involvement in these instruments at that time, but does not represent exposure to credit, interest rate, or market risk.

	Notional Value	Rate	Maturity Date	Fair Value (Liability)/Asset
Interest rate corridor/cap agreement	\$ 3,936,000		11/01/19	\$ 15,000
Interest rate cap agreement	25,064,000		12/19/24	5,000
Interest rate corridor/cap agreement	15,000,000		12/19/24	308,000
				\$ 328,000
Interest rate swap agreement	\$ 23,201,000	4.02%	12/19/24	\$(413,000)

FAIR VALUE MEASUREMENTS

The Company follows the guidance under ASC Topic 820, “Fair Value Measurements,” which establishes a framework for measuring fair value by providing a standard definition of fair value as it applies to assets and liabilities. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observed for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

ASC Topic 820 also expands disclosures about instruments measured at fair value.

The following tables set forth by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2014 and 2013. As required by ASC Topic 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgement, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

At Fair Value as of December 31, 2014				
Recurring Fair Value Measurements	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Interest rate swap agreement	—	\$(413,000)	—	\$ (413,000)
Interest rate corridor/cap agreements	—	328,000	—	328,000
Grantor trust	\$2,880,000	—	—	2,880,000

At Fair Value as of December 31, 2013				
Recurring Fair Value Measurements	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Interest rate swap agreements	—	\$(1,750,000)	—	\$(1,750,000)
Interest rate corridor/cap agreement	—	48,000	—	48,000
Grantor trust	\$2,730,000	—	—	2,730,000

The interest rate swap agreements are valued at fair value based on dealer quotes using a discounted cash flow model. The interest rate corridor/cap agreements are valued at fair value based on market data inputs using the Black Scholes option pricing model. Each of these models reflect the contractual terms of the derivative instruments, including the period to maturity and debt repayment schedule, and market-based parameters such as interest rates and yield curves. These models do not require significant judgement, and the inputs are observable. Thus, the derivative instruments are classified within Level 2 of the valuation hierarchy. The Company does not intend to terminate any of the interest rate hedge agreements prior to their expiration dates. The grantor trust is valued at fair value based on quoted market prices for the securities held in the grantor trust and thus is classified within Level 1 of the valuation hierarchy.

DEFERRED COMPENSATION

The Company maintains three nonqualified deferred compensation plans (collectively, the "Plans") into which certain members of management are eligible to defer a portion of their salary and management bonus. Two of the Plans were closed to new deferrals as of December 31, 2004. The third Plan allows deferrals beginning January 1, 2012. The amounts deferred under these Plans are credited with earnings based on crediting rates established annually by the Company in accordance with the Plans. The crediting rates for 2014 ranged from 3.52% - 6.67%. Under one of the Plans, the Company is also obligated to pay in certain cases a survivor benefit on the 15th anniversary of the commencement of retirement payments or the participant's death, if later. Although benefits under these Plans are obligations of LAACO, Ltd., the Company has purchased life insurance that is estimated to be sufficient to cover the distributions to be made under the Plans plus the cost of capital to the Company. The Company can borrow against the cash surrender value of certain of the life insurance policies at specified rates (5.05% at December 31, 2014) for use in its operations. The Company did not borrow additional amounts against the policies in 2014 and 2013. As of December 31, 2014, the Company has the capacity to borrow an additional \$4.4 million against the cash surrender value of the life insurance policies.

The Company also has a grantor trust to provide additional security for obligations to be paid under one of the Plans. At December 31, 2014 and 2013, the fair value of trust assets totaled \$2,880,000 and \$2,730,000, respectively, which were invested in government securities. Grantor trust assets and cash surrender values, net of policy loans, are included in “other assets” and deferred benefits are included in “other long-term liabilities” on the accompanying Consolidated Balance Sheets.

	December 31,	
	2014	2013
Cash surrender value of life insurance	\$ 8,571,000	\$ 7,877,000
Grantor trust assets	2,880,000	2,730,000
Less policy loans	(21,000)	(21,000)
	\$11,430,000	\$10,586,000
Deferred benefits	\$7,823,000	\$7,204,000

INCENTIVE RETIREMENT PLANS

The Company sponsors two 401(k) Incentive Retirement Plans; one for eligible employees of LAACO, Ltd. and California Yacht Club, Inc. and the other for the employees of The LAAC Corp. In 2014 and 2013, total Company matching contributions to the Plans were \$281,000 and \$306,000, respectively.

UNIT REPURCHASE PROGRAM

The Managing General Partner of the Partnership has authorized the repurchase of up to \$7 million of Partnership units through April 25, 2015. During 2014 and 2013, the Partnership repurchased 166 and 1,011 units, respectively, for total consideration of \$197,000 and \$1,102,000, respectively. As of December 31, 2014, a total of 5,860 units have been repurchased for total consideration of \$5,871,000. An additional 29 units have been repurchased in 2015 for total consideration of \$35,000. The Company retired 3,832 of the repurchased units, with the remaining repurchased units being held in treasury or reissued under the Equity Incentive Plan.

EQUITY INCENTIVE PLAN

In 2012, the Company adopted the LAACO, Ltd. Equity Incentive Plan which provides officers of the Company with awards of restricted and unrestricted limited partnership units of the Partnership. The maximum number of units that may be issued under the plan are equal to the number of units acquired after January 1, 2012, pursuant to the Unit Repurchase Program. As of December 31, 2014, a total of 265 units have been issued under the plan and there are 1,763 units that are still issuable under the plan. All units awarded under the plan are valued at the fair market value of the Partnership units on the date of grant. In March 2014, officers of the Company were awarded 100 units of the Partnership as a grant and one officer acquired five additional units of the Partnership in lieu of a portion of his cash management bonus. All 105 units awarded under the plan were valued at the fair market value of the Partnership units on the date of grant (\$1,175 per unit), were fully vested and are subject to certain restrictions on transfer of the units. The Company accrued total compensation expense of \$123,000 in 2013 for the units issued in March 2014.

In March 2015, officers of the Company were awarded 100 units of the Partnership as a grant and certain of these officers acquired 35 additional units of the Partnership in lieu of a portion of their cash management bonus. All 135 units awarded in March under the plan were valued at the fair market value of the Partnership units on the date of grant (\$1,525 per unit), were fully vested and are subject to certain restrictions on transfer of the units. The Company accrued total compensation expense of \$206,000 in 2014 for the units issued in March 2015.

LEASES

The Company owns commercial properties (self-storage facilities, retail stores, and other properties) that it rents to tenants. The minimum future rental income as of December 31, 2014, under noncancelable leases with terms of one year or longer for each of the five succeeding years are: 2015–\$841,000; 2016–\$301,000; 2017–\$251,000, 2018–\$174,000 and 2019–\$98,000. The Company leases certain real estate for its own use pursuant to long-term

operating leases. Rental expense for 2014 and 2013 was \$1,411,000 and \$1,382,000, respectively, of which \$1,185,000 and \$1,141,000, respectively, is for rent paid to the County of Los Angeles for a land lease on which the California Yacht Club building and marina facilities are constructed. The lease, which expires July 2022, requires monthly minimum rent payments (\$71,000 at December 31, 2014) plus a percentage rent payment based on the gross revenues of California Yacht Club. Total minimum annual rental commitments are: 2015–\$1,069,000; 2016–\$1,045,000; 2017–\$1,046,000; 2018–\$920,000; 2019–\$856,000; and later years–\$2,140,000.

OTHER COMMITMENTS AND CONTINGENCIES

The Company has certain contingent liabilities with respect to litigation, claims and contractual agreements arising from the ordinary course of business. In the opinion of management and based on consultation with legal counsel, such contingent liabilities will not result in any loss which would materially affect the Company's financial position, results of operations or cash flows. The Company maintains cash at various financial institutions in excess of federally insured limits; however, the Company believes it places its cash balances with quality financial institutions which limits its credit risks.

INCOME TAX EXPENSE AND DEFERRED INCOME TAXES

LAACO, Ltd., as a limited partnership, is not a taxable entity. As noted in Accounting Policies – Income Taxes, the Company's subsidiaries are corporations subject to federal and state income taxes. The subsidiaries account for income taxes in accordance with ASC Topic 740 "Income Taxes." The provision for income taxes include amounts currently payable and amounts deferred to or from other years as a result of differences in the timing of income or expenses for financial reporting and tax purposes. For the year ended December 31, 2014, the subsidiaries recognized income tax expense of \$(63,000) consisting of a current benefit of \$108,000 and a deferred provision of \$(171,000). For the year ended December 31, 2013, the subsidiaries recognized income tax benefit of \$79,000 consisting of a current provision of \$(76,000) and a deferred benefit of \$155,000.

A reconciliation of the subsidiaries' income tax expense at statutory rates to the recognized income tax (expense) benefit for the years ended December 31, 2014 and 2013, is as follows:

	2014	2013
Statutory income tax expense	\$(76,000)	\$(15,000)
State income tax expense, net of federal benefit	(46,000)	(3,000)
State tax credits	39,000	94,000
Other	20,000	3,000
Income tax (expense) benefit attributable to subsidiaries	\$(63,000)	\$ 79,000

The tax effect of each type of temporary difference that gives rise to deferred tax assets and (liabilities) of the subsidiaries at December 31, 2014 and 2013, are as follows:

	2014	2013
Deferred tax assets:		
Accrued expenses	\$ 146,000	\$ 131,000
State tax credits	358,000	298,000
Other	52,000	39,000
	556,000	468,000
Deferred tax liabilities:		
Prepaid expenses	(123,000)	(140,000)
Depreciation	(742,000)	(464,000)
Deferred state taxes	(82,000)	(84,000)
Net deferred tax liability	\$(391,000)	\$(220,000)

As of December 31, 2014, the subsidiaries have state tax credit carryforwards of approximately \$358,000 for California income tax purposes which will begin to expire in 2023.

CASH DISTRIBUTIONS PER UNIT:

For the year ended December 31, 2014		For the year ended December 31, 2013	
Distribution date	Per Unit	Distribution date	Per Unit
April 1, 2014	\$15.00	April 1, 2013	\$14.00
June 2, 2014	15.00	June 3, 2013	14.00
September 2, 2014	15.00	September 3, 2013	14.00
December 22, 2014	20.00	December 20, 2013	14.00
	\$65.00		\$56.00