U-Store-It Trust
Form 10-Q
May 08, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2009.

or

o	**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

U-STORE-IT TRUST

(Exact Name of Registrant as Specified in its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	**20-1024732** (I.R.S. Employer Identification No.)
460 East Swedesford Road **Wayne, Pennsylvania** (Address of Principal Executive Offices)	**19087** (Zip Code)

(610) 293-5700

(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. Yes x No o

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). 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.

Large accelerated filer x	Accelerated filer £
Non-accelerated filer £	Smaller reporting company £

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

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

Class	**Outstanding at May 6, 2009**
common shares, $.01 par value	58,191,752

Table of Contents

U-STORE-IT TRUST

TABLE OF CONTENTS

Forward-Looking Statements

This Quarterly Report on Form 10-Q, together with other statements and information publicly disseminated by U-Store-It Trust (we, us, our or the Company), contains 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 (the Exchange Act). 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. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include, but are not limited to:

- national and local economic, business, real estate and other market conditions;

- the competitive environment in which we operate;

- the execution of our business plan;

- 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;

- recent disruptions in the credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates, or at all;

- increases in interest rates and operating costs;
- counterparty non-performance related to the use of derivative financial instruments;
- our ability to maintain our status as a real estate investment trust (REIT) for federal income tax purposes;
- acquisition and development risks;
- 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 our Annual Report on Form 10-K and, from time to time, in other reports we file with the Securities and Exchange Commission (the SEC) or in other documents that we publicly disseminate.

Table of Contents

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 in securities laws.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

U-STORE-IT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Storage facilities	$ 1,882,654	$ 1,888,123
Less: Accumulated depreciation	(337,605)	(328,165)
Storage facilities, net	1,545,049	1,559,958
Cash and cash equivalents	1,577	3,744
Restricted cash	16,244	16,217
Loan procurement costs, net of amortization	3,584	4,453
Assets held for sale		2,378
Other assets, net	8,599	10,909
Total assets	$ 1,575,053	$ 1,597,659
LIABILITIES AND EQUITY		
Revolving credit facility	$ 163,000	$ 172,000
Unsecured term loan	200,000	200,000
Secured term loan	57,419	57,419
Mortgage loans and notes payable	545,461	548,085
Accounts payable, accrued expenses and other liabilities	29,927	39,410
Distributions payable	1,582	1,572
Deferred revenue	9,900	9,725
Security deposits	458	472
Other liabilities held for sale		22
Total liabilities	1,007,747	1,028,705
Noncontrolling interests of the Company	45,833	46,026
Commitments and contingencies		
Shareholders equity:		
Common shares $.01 par value, 200,000,000 shares authorized, 57,687,122 and 57,623,491 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	577	576
Additional paid-in capital	801,887	801,029
Accumulated other comprehensive loss	(6,302)	(7,553)
Accumulated deficit	(274,689)	(271,124)
Total shareholders equity	521,473	522,928

Total liabilities and equity	$	1,575,053	$	1,597,659

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

U-STORE-IT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2009		Three Months Ended March 31, 2008	
REVENUES				
Rental income	$	53,813	$	54,358
Other property related income		3,863		3,537
Total revenues		57,676		57,895
OPERATING EXPENSES				
Property operating expenses		24,457		24,514
Depreciation and amortization		18,736		19,536
General and administrative		5,474		5,495
Total operating expenses		48,667		49,545
OPERATING INCOME		9,009		8,350
OTHER INCOME (EXPENSE)				
Interest:				
Interest expense on loans		(11,353)		(13,827)
Loan procurement amortization expense		(483)		(471)
Interest income		44		59
Other		(12)		68
Total other expense		(11,804)		(14,171)
LOSS FROM CONTINUING OPERATIONS		(2,795)		(5,821)
DISCONTINUED OPERATIONS				
Income from discontinued operations		9		914
Net gain on disposition of discontinued operations		500		572
Total discontinued operations		509		1,486
NET LOSS		(2,286)		(4,335)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		177		351
NET LOSS ATTRIBUTABLE TO THE COMPANY	$	(2,109)	$	(3,984)
Basic and diluted loss per share from continuing operations attributable to common shareholders	$	(0.04)	$	(0.09)
Basic and diluted earnings per share from discontinued operations attributable to common shareholders		0.01		0.02
Basic and diluted loss per share attributable to common shareholders	$	(0.03)	$	(0.07)
Weighted-average basic and diluted shares outstanding		57,687		57,593
AMOUNTS ATTRIBUTABLE TO THE COMPANY S COMMON SHAREHOLDERS:				
Loss from continuing operations	$	(2,577)	$	(5,360)
Total discontinued operations		468		1,376
Net loss	$	(2,109)	$	(3,984)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

U-STORE-IT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Operating Activities		
Net loss	$ (2,286)	$ (4,335)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	19,219	20,466
Gain on disposition of discontinued operations	(500)	(572)
Equity compensation expense	858	856
Accretion of fair market value of debt	(116)	(132)
Changes in other operating accounts:		
Other assets	1,475	2,762
Accounts payable and accrued expenses	(7,525)	(8,168)
Other liabilities	164	858
Net cash provided by operating activities	$ 11,289	$ 11,735
Investing Activities		
Acquisitions, additions and improvements to storage facilities	(3,201)	(18,155)
Proceeds from sales of properties	2,852	4,426
Increase in restricted cash	(27)	(272)
Net cash used in investing activities	$ (376)	$ (14,001)
Financing Activities		
Proceeds from:		
Revolving credit facility	6,500	30,000
Principal payments on:		
Revolving credit facility	(15,500)	(14,000)
Mortgage loans and notes payable	(2,508)	(1,316)
Distributions paid to shareholders	(1,445)	(10,386)
Distributions paid to noncontrolling interests	(127)	(914)
Loan procurement costs		(10)
Net cash (used in) provided by financing activities	$ (13,080)	$ 3,374
(Decrease) increase in cash and cash equivalents	(2,167)	1,108
Cash and cash equivalents at beginning of period	3,744	4,517
Cash and cash equivalents at end of period	$ 1,577	$ 5,625
Supplemental Cash Flow Information		
Cash paid for interest, net of interest capitalized	$ 11,335	$ 13,912
Supplemental disclosure of noncash activities:		
Acquisition of facilities		
Additions to storage facilities		$ 1,023
Derivative valuation adjustment	$ 1,094	$ (1,548)
Foreign currency translation adjustment	$ 268	$ 3

See accompanying notes to the unaudited consolidated financial statements.

6

Table of Contents

U-STORE-IT TRUST AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

U-Store-It Trust, a Maryland real estate investment trust (collectively with its subsidiaries, we or the Company), is a self-administered and self-managed real estate investment trust, or REIT, active in acquiring, developing and operating self-storage properties for business and personal use under month-to-month leases. The Company s self-storage facilities (collectively, the Properties) are located in 26 states throughout the United States, and in the District of Columbia and are managed under one reportable operating segment: we own, operate, develop, and acquire self-storage facilities. The Company owns substantially all of its assets through U-Store-It, L.P., a Delaware limited partnership (the Operating Partnership). The Company is the sole general partner of the Operating Partnership and, as of March 31, 2009, owned a 91.9% interest in the Operating Partnership. The Company manages its assets through YSI Management, LLC (the Management Company), a wholly owned subsidiary of the Operating Partnership. The Company owns 100% of U-Store-It Mini Warehouse Co. (the TRS) in addition to three other subsidiaries, which it has elected to treat as taxable REIT subsidiaries. In general, a taxable REIT subsidiary may perform non-customary services for tenants, hold assets that the Company cannot hold directly and generally may engage in any real estate or non-real estate related business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) regarding interim financial reporting and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows 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 Company s audited financial statements prepared in accordance with GAAP, and the related notes thereto, for the year ended December 31, 2008, which are included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 as certain footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted from this report pursuant to the rules of the SEC. The results of operations for each of the three months ended March 31, 2009 and 2008 are not necessarily indicative of the results of operations to be expected for any future period or the full year.

New Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (EITF 03-6-1). EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of earnings per share pursuant to the two-class method. EITF 03-6-1 became effective for the Company on January 1, 2009. The adoption of EITF 03-6-1 in 2009 did not have a material effect on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and the impact of derivative instruments and related hedged items on an entity s financial position, financial performance and cash flows. SFAS 161 became effective for the Company on January 1, 2009. The adoption of SFAS 161 in 2009 did not have a material effect on the consolidated financial statements.

Table of Contents

3. STORAGE FACILITIES

The value of the Company s real estate assets are summarized as follows:

	March 31, 2009	December 31, 2008
	(in thousands)	
Land and improvements	$ 387,856	$ 387,831
Buildings and improvements	1,300,855	1,300,711
Equipment	192,292	198,981
Construction in progress	1,651	600
Total	1,882,654	1,888,123
Less accumulated depreciation	(337,605)	(328,165)
Storage facilities, net	$ 1,545,049	$ 1,559,958

The following table summarizes the Company s acquisition and disposition activity during the period January 1, 2009 to March 31, 2009:

Facility/Portfolio	Location	Transaction Date	Total Number of Facilities	Gross Purchase / Sale Price (in thousands)
2009 Dispositions:				
68th Street Asset	Miami, FL	January 2009	1	$ 2,973

4. REVOLVING CREDIT FACILITY, UNSECURED TERM LOAN AND SECURED TERM LOAN

As of March 31, 2009, the Company and its Operating Partnership had in place a three-year $450 million unsecured credit facility, which was entered into in November 2006, consisting of $200 million in an unsecured term loan and $250 million in unsecured revolving loans. The outstanding balance on the Company s credit facility as of March 31, 2009 was $363 million and was comprised of $200 million of term loan borrowings and $163 million of unsecured revolving loans. As of March 31, 2009, approximately $87 million was available under the Company s credit facility. The facility has a November 20, 2009 termination date, subject to a one year extension to November 20, 2010 at the Company s option, provided we pay an extension fee of 15 basis points, or $675,000, and are not in default under the facility. The Company currently intends to exercise this extension option prior to the November 20, 2009 termination date. Borrowings under the credit facility bear interest, at our option, at either an alternative base rate or a Eurodollar rate, in each case, plus an applicable margin based on our leverage ratio or our credit rating. The alternative base interest rate is a fluctuating rate equal to the higher of the prime rate or the sum of the federal funds effective rate plus 50 basis points. The applicable margin for the alternative base rate will vary from 0.00% to 0.50% depending on our leverage ratio prior to achieving an investment grade rating, and will vary from 0.00% to 0.25% depending on our credit rating after achieving an investment grade rating. The Eurodollar rate is a rate of interest that is fixed for interest periods of one, two, three or six months based on the LIBOR rate determined two business days prior to the commencement of the applicable interest period. The applicable margin for the Eurodollar rate will vary from 1.00% to 1.50% depending on our leverage ratio prior to achieving an investment grate rating, and will vary from 0.425% to 1.00% depending on our credit rating after achieving an investment grade rating. At March 31, 2009, borrowings under the unsecured credit facility had a weighted average interest rate of 1.82% and the Company was in compliance with all financial covenants of the agreement.

On September 14, 2007, the Company and its Operating Partnership entered into a credit agreement that allowed for total secured term loan borrowings of $50.0 million and subsequently amended the agreement on April 3, 2008 to allow for total secured term loan

Table of Contents

borrowings of $57.4 million. The term loans each have a November 20, 2009 termination date, subject to a one year extension to November 20, 2010 at the Company s option, provided we pay an extension fee of 15 basis points, or $86,000, and are not in default under the facility. The Company currently intends to exercise these extension options prior to the November 20, 2009 termination date. Each term loan bears interest at either an alternative base rate or a Eurodollar rate, at our option, in each case plus an applicable margin. The applicable margin for the alternative base rate will vary from 0.10% to 0.60% depending on our leverage ratio prior to achieving an investment grade rating, and will vary from 0.00% to 0.25% depending on our credit rating after achieving an investment grade rating. The Eurodollar rate is a rate of interest that is fixed for interest periods of one, two, three or six months based on the LIBOR rate determined two business days prior to the commencement of the applicable interest period. The applicable margin for the Eurodollar rate will vary from 1.10% to 1.60% depending on our leverage ratio prior to achieving an investment grade rating, and will vary from 0.425% to 1.00% depending on our credit rating after achieving an investment grade rating. The outstanding term loans are secured by a pledge by our Operating Partnership of all equity interests in YSI RT LLC, the wholly-owned subsidiary of the Operating Partnership that acquired eight self-storage facilities in September 2007 and one self-storage facility in May 2008. The nine YSI RT LLC assets had a net book value of approximately $69.2 million at March 31, 2009. As of March 31, 2009, there were two term loans outstanding totaling $57.4 million that had a weighted average interest rate of 1.92% and the Company was in compliance with all financial covenants of the agreement.

5. MORTGAGE LOANS AND NOTES PAYABLE

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

Mortgage Loan	Carrying Value as of: March 31, 2009	December 31, 2008 (in thousands)	Effective Interest Rate	Maturity Date
Acq VI	$ 1,689	$ 1,701	8.43%	Aug-09
YSI III	84,565	85,020	5.09%	Nov-09
YSI I	84,657	85,105	5.19%	May-10
YSI IV	6,128	6,150	5.25%	Jul-10
YSI XXVI	9,661	9,724	5.00%	Aug-10
YSI XXV	8,062	8,093	5.00%	Oct-10
Promissory notes	65	75	5.97%	Nov-10
YSI II	84,773	85,213	5.33%	Jan-11
YSI XII	1,551	1,561	5.97%	Sep-11
YSI XIII	1,333	1,342	5.97%	Sep-11
YSI VI	78,242	78,543	5.13%	Aug-12
YASKY	80,000	80,000	4.96%	Sep-12
USIFB	3,431	3,509	4.28%	Oct-12
YSI XIV	1,850	1,862	5.97%	Jan-13
YSI VII	3,208	3,224	6.50%	Jun-13
YSI VIII	1,833	1,842	6.50%	Jun-13
YSI IX	2,017	2,026	6.50%	Jun-13
YSI XVII	4,335	4,365	6.32%	Jul-13
YSI XXVII	528	532	5.59%	Nov-13
YSI XXX	7,744	7,804	5.59%	Nov-13
YSI XI	2,532	2,548	5.87%	Dec-13
YSI V	3,343	3,363	5.25%	Jan-14
YSI XXVIII	1,628	1,638	5.59%	Feb-14
YSI X	4,219	4,237	5.87%	Jan-15

YSI XV		1,951		1,961	6.41%	Jan-15
YSI XX		65,538		65,953	5.97%	Nov-15
Unamortized fair value adjustment		578		694		
Total mortgage loans and notes payable	$	545,461	$	548,085		

The following table presents the future principal payment requirements on outstanding mortgage loans and notes payable at March 31, 2009 (in thousands):

Table of Contents

2009	$	92,081
2010		112,730
2011		88,565
2012		161,303
2013		21,759
2014 and thereafter		68,445
Total mortgage payments		544,883
Plus: Fair value adjustment		578
Total mortgage indebtedness	$	545,461

The Company currently intends to fund its 2009 future principal payment requirements from cash provided by operating activities, proceeds from property dispositions and additional borrowings under our credit facility ($87 million available as of March 31, 2009).

We believe that, as a publicly traded REIT, we will have access to multiple sources of capital to fund 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, the current dislocation in the United States debt markets has significantly reduced the availability and increased 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 foreseeable future.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company s use of derivative instruments is limited to the utilization of interest rate 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. 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. Ineffectiveness was immaterial for all periods presented.

The Company formally assesses, both at inception of the 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, it 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 Company had an interest rate cap agreement that effectively limited the interest rate on $40 million of credit facility borrowings at 5.50% per annum through June 2008. The following table summarizes the terms and fair values of the Company s derivative financial instruments at March 31, 2009 (dollars in thousands):

Table of Contents

Hedge Product	Hedge Type		Notional Amount	Strike	Effective Date	Maturity		Fair Value March 31, 2009		Fair Value December 31, 2008
Swap	Cash flow	$	50,000	4.7725%	8/24/2007	11/20/2009	$	(1,334)	$	(1,683)
Swap	Cash flow		25,000	4.7160%	9/4/2007	11/20/2009		(658)		(830)
Swap	Cash flow		25,000	2.3400%	3/28/2008	11/20/2009		(275)		(326)
Swap	Cash flow		200,000	2.7625%	5/28/2008	11/20/2009		(2,722)		(3,314)
							$	(4,989)	$	(6,153)

The fair value of the Company s derivative financial instruments is classified in accounts payable, accrued expenses and other liabilities.

7. FAIR VALUE MEASUREMENTS

On January 1, 2008, the Company adopted the methods of fair value as described in the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) to value its financial assets and liabilities. As defined in SFAS No. 157, 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, SFAS No. 157 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.

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.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2009, 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 tits derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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 during the three months ended March 31, 2009 that would reduce the amount owed by the Company.

Table of Contents

8. NONCONTROLLING INTERESTS

The Company has adopted SFAS 160 effective January 1, 2009. Per SFAS 160, 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. Under SFAS 160, such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company s equity. 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 Company and noncontrolling interests. Presentation of consolidated equity activity is included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for shareholders equity, noncontrolling interests and total equity.

However, per FASB Emerging Issues Task Force Topic No. D-98, Classification and Measurement of Redeemable Securities (EITF D-98), securities that are redeemable for cash or other assets at the option of the holder, not solely within the control of the issuer, must be classified outside of permanent equity. This would result in certain outside ownership interests being included as redeemable noncontrolling interests outside of permanent equity 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 noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company considered the guidance in EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock to evaluate whether the Company controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under share settlement of the contract. EITF D-98 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.

The consolidated results of the Company include results attributable to units of the Operating Partnership that are not owned by the Company, which amounted to approximately 8.1% as of March 31, 2009 and December 31, 2008 of all outstanding units. These interests were issued in the form of Operating Partnership units and were a component of the consideration the Company paid to acquire certain self-storage facilities. Limited partners who acquired Operating Partnership units have the right to require the Operating Partnership to redeem part or all of their Operating Partnership units for, at the Company s option, an equivalent number of common shares of the Company or cash based upon the fair market value of an equivalent number of common shares of the Company. However, the operating agreement contains certain circumstances that could result in a net cash settlement outside the control of the Company. Accordingly, consistent with EITF D-98, the Company will continue to record these non controlling interests outside of permanent equity in the consolidated balance sheets. Net income or loss related to these noncontrolling interests is excluded from net income or loss in the consolidated statements of operations. Based on the Company s evaluation of the redemption value of the redeemable noncontrolling interest, the Company has reflected these interests at their carrying value as of March 31, 2009 and December 31, 2008 as carrying cost exceeded the estimated redemption value.

The table below presents consolidated equity and noncontrolling interest activity for the period January 1, 2008 through March 31, 2008 as well as for the period January 1, 2009 through March 31, 2009 (in thousands):

	Shareholders Equity		Noncontrolling Interest	
	2009	2008	2009	2008
Balance at January 1	$ 522,928	$ 555,619	$ 46,026	$ 48,982
Issuance of restricted shares	1			
Amortization of restricted shares	415	474		
Share compensation expense	443	382		
Net loss	(2,109)	(4,037)	(177)	(298)
		(9)		9

Adjustment for noncontrolling interest in the Operating Partnership				
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate swap	1,005	(1,548)	89	
Unrealized gain on foreign currency translation	246	3	22	
Distributions	(1,456)	(10,412)	(127)	(923)
Balance at March 31	$ 521,473	$ 540,472	$ 45,833	$ 47,770

Table of Contents

The fair value of the Company s common shares when calculated for the purposes of unit redemption will be equal to the average of the closing trading price of the Company s common shares on the New York Stock Exchange for the 10 trading days before the date the Company receives the redemption notice. At December 31, 2008 and March 31, 2009, 5,079,923 units were outstanding, and as of March 31, 2009, the calculated aggregate redemption value of outstanding Operating Partnership units based upon the Company s share price was approximately $10.4 million.

The Company has a 97% interest in USIFB, LLP (the Venture), and through a wholly-owned subsidiary and together with its joint venture partner, operations began at one facility in London, England during 2008. The Venture was formed to own, operate, acquire and develop self-storage facilities in England. We have determined that the Venture is a variable interest entity as defined by FIN 46R, and that we are the primary beneficiary. The 3% interest that is owned by our JV partner is reflected in noncontrolling interest on the consolidated balance sheet. Accordingly, the assets, liabilities and results of operations of the Venture are consolidated in our consolidated financial statements. At March 31, 2009, the Venture had total assets of $6.0 million and total liabilities of $3.5 million and a mortgage loan of $3.4 million secured by assets with a net book value of $5.6 million.

9. RELATED PARTY TRANSACTIONS

During 2005 and 2006, the Operating Partnership entered into various office lease agreements with Amsdell and Amsdell, an entity owned by Robert Amsdell and Barry Amsdell (each a former trustee). Pursuant to these lease agreements, we rented office space in the Airport Executive Park, an office and flex development located in Cleveland, Ohio, which is owned by Amsdell and Amsdell. The Company s independent Trustees approved the terms of, and entry into, each of the office lease agreements by the Operating Partnership. In addition to monthly rent, the office lease agreements provide that the Operating Partnership reimburse Amsdell and Amsdell for certain maintenance and improvements to the leased office space. The aggregate amount of payments by us to Amsdell and Amsdell under these lease agreements for the three months ended March 31, 2009 and March 31, 2008 was approximately $0.2 million, respectively. We vacated the office space owned by Amsdell and Amsdell in 2007, but remained obligated under certain of the lease agreements through 2014. Subsequently, we entered into a sublease agreement for the space with a third party for the remainder of the lease term.

Total future minimum rental payments under the related party lease agreements as of March 31, 2009 are as follows:

	Due to Related Party Amount	Due from Subtenant Amount
	(in thousands)	
2009	$ 340	$ 236
2010	453	314
2011	475	314
2012	475	314
2013	499	314
2014 and thereafter	499	315
	$ 2,741	$ 1,807

10. DISCONTINUED OPERATIONS

For the three months ended March 31, 2009 and March 31, 2008, income from discontinued operations relates to one property sold through March 31, 2009 and 23 properties that the Company sold during 2008. Each of the sales during 2009 and 2008 resulted in the recognition of a gain, which in the aggregate totaled $0.5 million and $19.7 million, respectively.

The following table summarizes the revenue and expense information for the properties classified as discontinued operations for the three months ended March 31, 2009 and March 31, 2008 (in thousands):

Table of Contents

	Three Months Ended March 31, 2009	2008
REVENUES		
Rental income	$ 35	$ 2,227
Other property related income	2	173
Total revenues	37	2,400
OPERATING EXPENSES		
Property operating expenses	28	1,028
Depreciation		458
Total operating expenses	28	1,486
INCOME FROM DISCONTINUED OPERATIONS	9	914
Net gain on disposition of discontinued operations	500	572
Total discontinued operations	$ 509	$ 1,486

11. COMPREHENSIVE LOSS

	Three Months Ended March 31, 2009	2008
NET LOSS	$ (2,286)	$ (4,335)
Other comprehensive income (loss):		
Unrealized gain (loss) on derivative financial instruments	1,094	(1,548)
Unrealized income on foreign currency translation	268	3
COMPREHENSIVE LOSS	$ (924)	$ (5,880)

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 complete 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 Company s Annual Report on the Form 10-K for the year ended December 31, 2008.

Overview

The Company is an integrated self-storage real estate company, which means that it has in-house capabilities in the operation, design, development, leasing, and acquisition of self-storage facilities. The Company has elected to be taxed as a REIT for federal tax purposes. At March 31, 2009 and December 31, 2008, the Company owned 386 and 387 self-storage facilities, respectively, totaling approximately 24.9 million square feet and 25.0 million square feet, respectively.

The Company derives revenues principally from rents received from our customers who rent units 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 units to new customers while maintaining and, where possible, increasing our pricing levels. In addition, our operating results are affected by the ability of our customers to make required rental payments to us. We believe that our decentralized approach to the management and operation of our facilities allows us to respond quickly and effectively to changes in local market conditions. Emphasis on local, market level oversight and control enhances our ability to optimize occupancy and pricing levels.

Currently, the United States is in a recession that has resulted in higher unemployment, shrinking demand for products, large-scale business failures and tight credit markets. 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 continuation of 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.

In the future, the Company intends to focus on increasing our internal growth and selectively pursuing targeted dispositions and selective acquisitions and developments of self-storage facilities. We intend to incur additional debt in connection with any such future acquisitions or developments.

The Company s self-storage facilities are located in major metropolitan areas as well as rural areas and have numerous tenants per facility. No single tenant represents 1% or more of our revenues. The facilities in Florida, California, Texas and Illinois provided approximately 18%, 16%, 9% and 7%, respectively, of total revenues during the three months ended March 31, 2009.

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. 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.

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 5 to 39 years. Expenditures for significant renovations or improvements that extend the useful lives of assets are capitalized. Repairs and maintenance costs are expensed as incurred.

Table of Contents

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.

In allocating the purchase price, the Company determines whether the acquisition includes intangible assets or liabilities. 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 has been allocated to above- or below-market lease intangibles. To date, no intangible asset has been recorded for the value of tenant relationships, because the Company does not have any concentrations of significant tenants and the average tenant turnover is fairly frequent.

Long-lived assets classified as held for use are reviewed for impairment when events and circumstances indicate that there may be an impairment. The carrying values of these long-lived assets are compared to the undiscounted future net operating cash flows attributable to the assets. An impairment loss is recorded if the net carrying value of the asset exceeds the undiscounted future net operating cash flows attributable to the asset and circumstances indicate that the carrying value of the real estate asset may not be recoverable. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset. Future events, or facts and circumstances that currently exist, that we have not yet identified, could cause us to conclude in the future that our long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

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 assets are 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. In most transactions, these contingencies are not satisfied until the actual closing of the transaction; and, accordingly, the facility is not identified as held for sale until the closing actually occurs. However, each potential transaction is evaluated based on its separate facts and circumstances.

Revenue Recognition

Management has determined that all our leases with tenants are operating leases. Rental income is recognized in accordance with the terms of the lease agreements or contracts, which generally are month-to-month. Revenues from long-term operating leases are recognized on a straight-line basis over the term of the lease. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is included in deferred revenue, and contractually due but unpaid rents are included in other assets.

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.

Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (EITF 03-6-1). EITF 03-6-1 requires that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of earnings per share pursuant to the two-class

Table of Contents

method. EITF 03-6-1 became effective for the Company on January 1, 2009. The adoption of EITF 03-6-1 in 2009 did not have a material effect on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement No. 133* (SFAS 161   ). SFAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and the impact of derivative instruments and related hedged items on an entity   s financial position, financial performance and cash flows. SFAS 161 became effective for the Company on January 1, 2009. The adoption of SFAS 161 in 2009 did not have a material effect on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160   ). SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified. In addition, it requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the income statement. SFAS 160 became effective on January 1, 2009 and resulted in the elimination of minority interests, and the inclusion of noncontrolling interests in the mezzanine level of our Consolidated Balance Sheets. Additionally, certain Statement of Operations captions were reclassified to conform to the required format of SFAS 160.

Results of Operations

The following discussion of our results of operations should be read in conjunction with the unaudited 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.

Acquisition and Development Activities

The comparability of the Company   s results of operations is affected by acquisition and disposition activities in 2009 and 2008. At March 31, 2009 and 2008, the Company owned 386 and 408 self-storage facilities and related assets, respectively. The following table summarizes the change in number of self-storage facilities from January 1, 2008 through March 31, 2009 (unaudited):

	2009	**2008**
Balance - Beginning of year	387	409
Facilities acquired		1
Facilities consolidated		
Facilities sold	(1)	(23)
Balance - End of period	386	387

The facility acquired in January 2008 was purchased for a gross purchase price of $13.3 million, is located in Washington, DC and is commonly referred to as the Uptown asset. Results of operations for the Uptown asset from and after the acquisition date are included in the consolidated statements of operations.

Comparison of the Three Months Ended March 31, 2009 to the Three Months Ended March 31, 2008

The following table and subsequent discussion provides information pertaining to our portfolio for the three months ended March 31, 2009 and 2008 (dollars in thousands):

Table of Contents

	Same Store Property Portfolio				Properties Acquired		Other/ Eliminations		Total Portfolio			
	2009	2008	Increase/ (Decrease)	% Change	2009	2008	2009	2008	2009	2008	Increase/ (Decrease)	% Change
REVENUES:												
Rental income	$ 52,996	$ 53,705	$ (709)	-1%	$ 817	$ 653	$	$	$ 53,813	$ 54,358	$ (545)	-1%
Other property related income	3,516	3,265	251	8%	347	272			3,863	3,537	326	9%
Total revenues	56,512	56,970	(458)	-1%	1,164	925			57,676	57,895	(219)	0%
OPERATING EXPENSES:												
Property operating expenses	22,088	22,134	(46)	0%	621	646	1,748	1,734	24,457	24,514	(57)	0%
Subtotal	22,088	22,134	(46)	0%	621	646	1,748	1,734	24,457	24,514	(57)	0%
NET OPERATING INCOME:	34,424	34,836	(412)	-1%	543	279	(1,748)	(1,734)	33,219	33,381	(162)	0%
Depreciation and amortization									18,736	19,536	(800)	-4%
General and administrative									5,474	5,495	(21)	0%
Subtotal									24,210	25,031	(821)	-3%
Operating income									9,009	8,350	659	8%
Other Income (Expense):												
Interest:												
Interest expense on loans									(11,353)	(13,827)	(2,474)	-18%
Loan procurement amortization expense									(483)	(471)	12	3%
Interest income									44	59	(15)	-25%
Other									(12)	68	(80)	-118%
Total other expense									(11,804)	(14,171)	(2,367)	-17%
LOSS FROM CONTINUING OPERATIONS									(2,795)	(5,821)	3,026	52%
DISCONTINUED OPERATIONS												
Income from discontinued operations									9	914	(905)	-99%
Net gain on disposition of discontinued operations									500	572	(72)	-13%
Total discontinued operations									509	1,486	(977)	-66%
NET LOSS									(2,286)	(4,335		