

U-Store-It Trust
Form 10-Q
May 08, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2009.

or

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

For the transition period from to .

Commission file number: 001-32324

U-STORE-IT TRUST

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(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 No

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

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 No

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

Class
common shares, \$.01 par value

Outstanding at May 6, 2009
58,191,752

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U-STORE-IT TRUST

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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;

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- 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.

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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

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Total liabilities and equity	\$	1,575,053	\$	1,597,659
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See accompanying notes to the unaudited consolidated financial statements.

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U-STORE-IT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2009	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.

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U-STORE-IT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2009	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.

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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.

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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.

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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		