

U-Store-It Trust  
Form 10-Q  
May 10, 2007

# 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, 2007

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

(Exact Name of Registrant as Specified in its Charter)

**Maryland**

(State or Other Jurisdiction of  
Incorporation or Organization)

**6745 Engle Road  
Suite 300**

**Cleveland, Ohio**

(Address of Principal Executive Offices)

**20-1024732**

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

**44130**

(Zip Code)

**(440) 234-0700**

(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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one).

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Large accelerated filer ☒ x

Accelerated filer ☐ o

Non-accelerated filer ☐ o

Indicate by check mark whether the registrant is a shell company (as determined 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 4, 2007 |
|-------------------------------|----------------------------|
| common stock, \$.01 par value | 57,408,819                 |

**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 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;
- increases in interest rates and operating costs;
- 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;
- material weaknesses in our internal control over financial reporting;
- 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.

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.



**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**U-STORE-IT TRUST AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)  
(unaudited)

|                                                                                                                                                                             | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------|
| <b>ASSETS</b>                                                                                                                                                               |                           |                              |
| Storage facilities                                                                                                                                                          | \$ 1,794,139              | \$ 1,771,864                 |
| Accumulated depreciation                                                                                                                                                    | (221,752 )                | (205,049 )                   |
|                                                                                                                                                                             | 1,572,387                 | 1,566,815                    |
| Cash and cash equivalents                                                                                                                                                   | 5,649                     | 19,716                       |
| Restricted cash                                                                                                                                                             | 15,508                    | 14,126                       |
| Loan procurement costs net of amortization                                                                                                                                  | 7,132                     | 7,575                        |
| Other assets                                                                                                                                                                | 6,205                     | 6,475                        |
| Due from related parties                                                                                                                                                    | 554                       | 632                          |
| Total assets                                                                                                                                                                | \$ 1,607,435              | \$ 1,615,339                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                 |                           |                              |
| Revolving credit facility                                                                                                                                                   | \$ 107,500                | \$ 90,500                    |
| Unsecured term loan                                                                                                                                                         | 200,000                   | 200,000                      |
| Mortgage loans and notes payable                                                                                                                                            | 586,804                   | 588,930                      |
| Accounts payable and accrued expenses                                                                                                                                       | 20,994                    | 22,590                       |
| Due to related parties                                                                                                                                                      | 119                       | 336                          |
| Distributions payable                                                                                                                                                       | 18,192                    | 18,197                       |
| Deferred revenue                                                                                                                                                            | 10,429                    | 9,740                        |
| Security deposits                                                                                                                                                           | 632                       | 655                          |
| Total liabilities                                                                                                                                                           | 944,670                   | 930,948                      |
| Minority interests                                                                                                                                                          | 55,009                    | 56,898                       |
| Commitments and contingencies                                                                                                                                               |                           |                              |
| Shareholders' Equity                                                                                                                                                        |                           |                              |
| Common shares \$.01 par value, 200,000,000 shares authorized, 57,408,819 and 57,335,490 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively | 574                       | 573                          |
| Additional paid in capital                                                                                                                                                  | 794,901                   | 794,632                      |
| Accumulated deficit                                                                                                                                                         | (187,719 )                | (167,712 )                   |
| Total shareholders' equity                                                                                                                                                  | 607,756                   | 627,493                      |
| Total liabilities and shareholders' equity                                                                                                                                  | \$ 1,607,435              | \$ 1,615,339                 |

See accompanying notes to the unaudited condensed consolidated financial statements.

**U-STORE-IT TRUST AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)  
(unaudited)

|                                                                        | <b>Three Months Ended March 31,</b> |                                             |
|------------------------------------------------------------------------|-------------------------------------|---------------------------------------------|
|                                                                        | <b>2007</b>                         | <b>2006</b><br>(as restated,<br>see note 2) |
| <b>REVENUES</b>                                                        |                                     |                                             |
| Rental income                                                          | \$ 51,133                           | \$ 44,994                                   |
| Other property related income                                          | 4,282                               | 3,101                                       |
| Other related party                                                    | 117                                 | 115                                         |
| Total revenues                                                         | 55,532                              | 48,210                                      |
| <b>OPERATING EXPENSES</b>                                              |                                     |                                             |
| Property operating expenses                                            | 23,239                              | 18,917                                      |
| Property operating expenses related party                              | 37                                  | 20                                          |
| Depreciation                                                           | 16,767                              | 14,672                                      |
| General and administrative                                             | 5,888                               | 5,389                                       |
| General and administrative related party                               | 101                                 | 177                                         |
| Total operating expenses                                               | 46,032                              | 39,175                                      |
| <b>OPERATING INCOME</b>                                                | 9,500                               | 9,035                                       |
| <b>OTHER INCOME (EXPENSE)</b>                                          |                                     |                                             |
| Interest:                                                              |                                     |                                             |
| Interest expense on loans                                              | (12,826 )                           | (10,000 )                                   |
| Loan procurement amortization expense                                  | (445 )                              | (462 )                                      |
| Write-off of loan procurement cost due to early extinguishment of debt |                                     | (1,273 )                                    |
| Interest income                                                        | 115                                 | 884                                         |
| Other                                                                  | (6 )                                | 42                                          |
| Total other expense                                                    | (13,162 )                           | (10,809 )                                   |
| <b>LOSS BEFORE MINORITY INTERESTS</b>                                  | (3,662 )                            | (1,774 )                                    |
| <b>MINORITY INTERESTS</b>                                              | 304                                 | 149                                         |
| <b>NET LOSS</b>                                                        | \$ (3,358 )                         | \$ (1,625 )                                 |
| Basic and diluted loss per share                                       | \$ (0.06 )                          | \$ (0.03 )                                  |
| Weighted-average basic and diluted shares outstanding                  | 57,421                              | 57,257                                      |
| Distributions declared per common share and unit                       | \$ 0.29                             | \$ 0.29                                     |

See accompanying notes to the unaudited condensed consolidated financial statements.

**U-STORE-IT TRUST AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

|                                                                              | Three Months Ended March 31,<br>2007 | 2006<br>(as restated, see note 2) |
|------------------------------------------------------------------------------|--------------------------------------|-----------------------------------|
| <b>Operating Activities</b>                                                  |                                      |                                   |
| Net loss                                                                     | \$ (3,358 )                          | \$ (1,625 )                       |
| Adjustments to reconcile net loss to cash provided by operating activities:  |                                      |                                   |
| Depreciation and amortization                                                | 17,212                               | 15,134                            |
| Equity compensation expense                                                  | 228                                  | 210                               |
| Accretion of fair market value of debt                                       | (66 )                                | (213 )                            |
| Early extinguishment of debt                                                 |                                      | 1,273                             |
| Minority interests                                                           | (304 )                               | (149 )                            |
| Changes in other operating accounts:                                         |                                      |                                   |
| Other assets                                                                 | 348                                  | (2,029 )                          |
| Accounts payable and accrued expenses                                        | (1,688 )                             | (4,342 )                          |
| Other liabilities                                                            | 572                                  | 67                                |
| Net cash provided by operating activities                                    | \$ 12,944                            | \$ 8,326                          |
| <b>Investing Activities</b>                                                  |                                      |                                   |
| Acquisitions, additions and improvements to storage facilities               | (22,355 )                            | (220,892 )                        |
| Acquisitions, additions and improvements to storage facilities related party |                                      | (26 )                             |
| Proceeds from sales of assets                                                |                                      | 20                                |
| Proceeds from sales of marketable securities                                 |                                      | 114,170                           |
| Investment in marketable securities                                          |                                      | (19,000 )                         |
| Insurance settlements                                                        |                                      | 1,712                             |
| Decrease (increase) in restricted cash                                       | (1,382 )                             | 958                               |
| Net cash used in investing activities                                        | \$ (23,737 )                         | \$ (123,058 )                     |
| <b>Financing Activities</b>                                                  |                                      |                                   |
| Proceeds from:                                                               |                                      |                                   |
| Revolving credit facility                                                    | 21,500                               | 46,000                            |
| Short-term financing                                                         |                                      | 30,000                            |
| Principal payments on:                                                       |                                      |                                   |
| Revolving credit facility                                                    | (4,500 )                             |                                   |
| Mortgage loans and notes payable                                             | (2,060 )                             | (2,313 )                          |
| Short term financing                                                         |                                      | (30,000 )                         |
| Capital lease obligations                                                    | (17 )                                | (12 )                             |
| Distributions paid to shareholders                                           | (16,627 )                            | (16,624 )                         |
| Distributions paid to minority partners                                      | (1,570 )                             | (1,507 )                          |
| Loan procurement costs                                                       |                                      | (945 )                            |
| Proceeds from exercise of stock options                                      |                                      | 1,465                             |
| Net cash from (used in) financing activities                                 | \$ (3,274 )                          | \$ 26,064                         |
| Decrease in cash and cash equivalents                                        | (14,067 )                            | (88,668 )                         |
| Cash and cash equivalents at beginning of period                             | 19,716                               | 101,679                           |
| Cash and cash equivalents at end of period                                   | \$ 5,649                             | \$ 13,011                         |
| <b>Supplemental Cash Flow Information</b>                                    |                                      |                                   |
| Cash paid for interest, net of interest capitalized                          | \$ 12,785                            | \$ 9,644                          |
| Supplemental disclosure of noncash activities:                               |                                      |                                   |
| Storage facilities acquired through the assumption of a mortgage loan        | \$                                   | \$ 7,072                          |
|                                                                              | \$                                   | \$ 447                            |

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Other assets and liabilities (net) acquired as part of storage facility acquisitions

See accompanying notes to the unaudited condensed consolidated financial statements.

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**U-STORE-IT TRUST AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED 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. As of March 31, 2007, the Company owned 402 self-storage facilities (collectively, the Properties) containing an aggregate of approximately 25.5 million square feet. The Properties are located in 27 states throughout the United States. All references to building square footage, occupancy percentage, and the number of buildings are unaudited.

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, 2007, owned a 91.7% 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. In addition to managing the Properties, the Management Company managed approximately 1.1 million square feet related to facilities owned by related parties as of March 31, 2007. The Company owns 100% of U-Store-It Mini Warehouse Co. (the TRS), which it has elected to treat as a taxable REIT subsidiary. 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. RESTATEMENTS OF PREVIOUSLY ISSUED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Subsequent to the issuance of the Company's 2005 financial statements, the Audit Committee of the Board of Trustees of the Company, upon recommendation from management, concluded that the previously issued financial statements contained errors related to the Company's classification of auction rate securities held at December 31, 2005 as cash and cash equivalents. As a result, the Company is restating its previously issued financial statements.

In the quarter ended September 30, 2006, the Company early adopted Staff Accounting Bulletin No. 108 - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). As a result of the discovery of the error described above, the Company is restating its previously issued financial statements to reflect, in the appropriate periods, the correction of the errors originally corrected via an adjustment of the Company's January 1, 2006 accumulated deficit in accordance with SAB 108.

The following is a description of the nature of the errors being corrected in the restatement:

*Cash and Cash Equivalents*

The Company adjusted its Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2006 to change the classification of outstanding checks from Accounts payable and accrued expenses to Cash and cash equivalents. This adjustment had no effect on the Condensed Consolidated Statement of Operations.

*Auction Rate and Other Marketable Securities*

The Company adjusted its Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2006 to change the classification of approximately \$89.8 million of auction rate and approximately \$5.4 million of other variable rate demand note securities from Cash and cash equivalents to Marketable Securities. Auction rate and variable rate demand note securities are securities that have stated maturities beyond three months, but are priced and traded as short-term investments due to the liquidity provided through an auction mechanism. The definition of a cash equivalent does not include these securities. This adjustment resulted in changes to the opening cash and cash equivalents balance in the Statement of Cash Flows for the three months ended March 31, 2006, and had no effect on the Condensed Consolidated Statement of Operations.

*Restricted Cash*

The Company adjusted its Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2006 to change the classification of certain deposits related to facilities encumbered with mortgage loans from Cash and cash equivalents to Restricted Cash. This adjustment resulted in changes to the opening cash and cash equivalents balance in the Statement of Cash Flows for the three months ended March 31, 2006, and had no effect on the Condensed Consolidated Statement of Operations.



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### *Loan Procurement Costs*

The Company adjusted its Condensed Consolidated Statement of Operations for the three months ended March 31, 2006 to reflect a change in amortization period of certain loan procurement costs, associated with debt instruments with increasing interest rates. The loan procurement costs were being amortized over a period inconsistent with the determination of the debt instruments' interest cost.

### *Other Assets / Rental Income*

The Company adjusted its Condensed Consolidated Statement of Operations for the three months ended March 31, 2006 for adjustments to certain leasing transactions. The misstatement related to the period in which the revenue related to certain tenants had been recognized.

### *Accounts Payable and Accrued Expense*

The Company adjusted its Condensed Consolidated Statement of Operations for the three months ended March 31, 2006 to accrue for utility costs at period end and workers compensation expense that had been understated as a result of erroneous information used to previously calculate the expense.

### *Related Party Revenue*

The Company adjusted its Condensed Consolidated Statement of Operations for the three months ended March 31, 2006 to change the classification of management fee revenue earned through the Company's management of certain facilities owned by related parties from Rental income to Other-Related party .

In addition, the Company adjusted its Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2006 to correct the presentation of the change in accounts payable related to real estate investment as an Investing Activity where it had previously been reported as an Operating Activity, and the Company added a disclosure regarding cash paid for interest, net of interest capitalized.

This table recaps the adjustments described above:

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|                                                                                 | Previously<br>Reported<br>(in thousands) | Adjustment   | As<br>Restated |
|---------------------------------------------------------------------------------|------------------------------------------|--------------|----------------|
| <b>For the three months ended March 31, 2006</b>                                |                                          |              |                |
| Statement of Operations                                                         |                                          |              |                |
| Rental income                                                                   | \$ 45,027                                | \$ (33 )     | \$ 44,994      |
| Other related party                                                             | \$                                       | \$ 115       | \$ 115         |
| Total revenues                                                                  | \$ 48,128                                | \$ 82        | \$ 48,210      |
| Property operating expenses                                                     | \$ 18,860                                | \$ 57        | \$ 18,917      |
| Total operating expenses                                                        | \$ 39,118                                | \$ 57        | \$ 39,175      |
| Operating income                                                                | \$ 9,010                                 | \$ 25        | \$ 9,035       |
| Loan procurement amortization expense                                           | \$ (395 )                                | \$ (67 )     | \$ (462 )      |
| Total other expense                                                             | \$ (10,742 )                             | \$ (67 )     | \$ (10,809 )   |
| Loss before minority interest                                                   | \$ (1,732 )                              | \$ (42 )     | \$ (1,774 )    |
| Minority interests                                                              | \$ 145                                   | \$ 4         | \$ 149         |
| Net loss                                                                        | \$ (1,587 )                              | \$ (38 )     | \$ (1,625 )    |
| Statement of Cash Flows                                                         |                                          |              |                |
| Cash Flows from Operating Activities:                                           |                                          |              |                |
| Net loss                                                                        | \$ (1,587 )                              | \$ (38 )     | \$ (1,625 )    |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                          |              |                |
| Depreciation and amortization                                                   | \$ 15,067                                | \$ 67        | \$ 15,134      |
| Minority interests                                                              | \$ (145 )                                | \$ (4 )      | \$ (149 )      |
| Changes in other operating accounts                                             |                                          |              |                |
| Other assets                                                                    | \$ (1,947 )                              | \$ (82 )     | \$ (2,029 )    |
| Accounts payable and accrued expenses                                           | \$ (2,635 )                              | \$ (1,707 )  | \$ (4,342 )    |
| Net cash provided by operating activities                                       | \$ 10,090                                | \$ (1,764 )  | \$ 8,326       |
| Cash Flows from Investing Activities:                                           |                                          |              |                |
| Acquisitions, additions and improvements to storage facilities                  | \$ (219,859 )                            | \$ (1,033 )  | \$ (220,892 )  |
| Proceeds from sale of marketable securities                                     | \$                                       | \$ 114,170   | \$ 114,170     |
| Investment in marketable securities                                             | \$                                       | \$ (19,000 ) | \$ (19,000 )   |
| Decrease in restricted cash                                                     | \$ 690                                   | \$ 268       | \$ 958         |
| Net cash used in investing activities                                           | \$ (217,463 )                            | \$ 94,405    | \$ (123,058 )  |
| Decrease in cash and cash equivalents                                           | \$ (181,309 )                            | \$ 92,641    | \$ (88,668 )   |
| Cash and cash equivalents at beginning of period                                | \$ 201,098                               | \$ (99,419 ) | \$ 101,679     |
| Cash and cash equivalents at end of period                                      | \$ 19,789                                | \$ (6,778 )  | \$ 13,011      |

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation* The accompanying unaudited condensed 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 ("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, 2006, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (Commission File No. 001-32324), 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 the three months ended March 31, 2007 and 2006 are not necessarily indicative of the results of operations to be expected for any future period or the full year.



#### 4. STORAGE FACILITIES

The following summarizes the real estate assets of the Company as of:

|                               | March 31,<br>2007<br>(in thousands) | December 31,<br>2006 |
|-------------------------------|-------------------------------------|----------------------|
| Land                          | \$ 374,588                          | \$ 370,196           |
| Buildings and improvements    | 1,241,265                           | 1,226,690            |
| Equipment                     | 176,918                             | 173,496              |
| Construction in progress      | 1,368                               | 1,482                |
| Total                         | 1,794,139                           | 1,771,864            |
| Less accumulated depreciation | (221,752 )                          | (205,049 )           |
| Storage facilities net        | \$ 1,572,387                        | \$ 1,566,815         |

The carrying value of storage facilities has increased from December 31, 2006 to March 31, 2007, primarily as a result of the acquisition of three self-storage facilities in 2007.

The Company completed the following acquisitions during the period January 1, 2006 to March 31, 2007:

| Facility/Portfolio              | Acquisition Date           | Total Number<br>of Facilities | Purchase Price<br>(000s) |
|---------------------------------|----------------------------|-------------------------------|--------------------------|
| Nashville, TN Portfolio         | January 2006               | 2                             | \$ 13,100                |
| Dallas, TX Portfolio            | January 2006               | 2                             | 11,500                   |
| U-Stor Self Storage Portfolio   | February 2006              | 3                             | 10,800                   |
| Sure Save Portfolio             | February 2006              | 24                            | 164,500                  |
| Texas Storage Portfolio         | March 2006                 | 4                             | 22,500                   |
| Nickey Portfolio                | April 2006                 | 4                             | 13,600                   |
| SecurCare Portfolio             | May 2006                   | 4                             | 35,700                   |
| Texas Storage Portfolio         | June 2006                  | 1                             | 6,500                    |
| Jernigan Portfolio              | July 2006                  | 9                             | 45,300                   |
| U-Stor Self Storage Portfolio   | August 2006                | 1                             | 3,500                    |
| Bailes Portfolio                | August 2006                | 3                             | 15,600                   |
| In & Out Self Storage Portfolio | August 2006                | 1                             | 7,600                    |
| Texas Storage Portfolio         | September 2006             | 2                             | 12,200                   |
|                                 | <b>2006 Total</b>          | <b>60</b>                     | <b>\$ 362,400</b>        |
| Sanford Portfolio               | January 2007               | 1                             | 6,300                    |
| Grand Central Portfolio         | January 2007               | 2                             | 13,200                   |
|                                 | <b>2007 Total</b>          | <b>3</b>                      | <b>\$ 19,500</b>         |
|                                 | <b>2006 and 2007 Total</b> | <b>63</b>                     | <b>\$ 381,900</b>        |

**5. REVOLVING CREDIT FACILITY AND UNSECURED TERM LOAN**

As of March 31, 2007, the Company and its Operating Partnership had in place a three-year \$450 million unsecured credit facility, including \$200 million in an unsecured term loan and \$250 million in unsecured revolving loans, for which the outstanding balance was \$307.5 million and was comprised of \$200 million of term loan borrowings and \$107.5 million of unsecured revolving loans. As of March 31, 2007, the Company had approximately \$142.5 million available under the Company's credit facility. 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 grade rating, and will vary from 0.425% to 1.00% depending on our credit rating after achieving an investment grade rating. This credit facility is scheduled to terminate on November 20, 2009, with an option for the Company to extend the termination date to November 20, 2010. At March 31, 2007, borrowings under the unsecured credit facility had a weighted average interest rate of 6.47%.

**6. MORTGAGE LOANS AND NOTES PAYABLE**

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

| Mortgage Loan        | Carrying Value as of:<br>March 31,<br>2007<br>(in thousands) | December 31,<br>2006 | Effective Interest<br>Rate on<br>March 31,<br>2007 | Maturity<br>Date |
|----------------------|--------------------------------------------------------------|----------------------|----------------------------------------------------|------------------|
| YSI XXIII            | \$ 1,315                                                     | \$ 1,322             | 5.00                                               | % 7/1/2007       |
| YSI XVI              | 14,168                                                       | 14,261               | 6.49                                               | % 11/1/2007      |
| YSI XXII             | 987                                                          | 993                  | 5.00                                               | % 11/1/2007      |
| YSI XXIX             | 4,338                                                        | 4,374                | 5.00                                               | % 1/1/2008       |
| YSI XXI              | 1,208                                                        | 1,217                | 5.00                                               | % 4/1/2008       |
| Acq IV               | 2,408                                                        | 2,425                | 7.71                                               | % 12/1/2008      |
| Acq VI               | 1,776                                                        | 1,787                | 8.43                                               | % 8/1/2009       |
| YSI III              | 87,919                                                       | 88,332               | 5.09                                               | % 11/11/2009     |
| YSI I                | 87,956                                                       | 88,362               | 5.19                                               | % 5/11/2010      |
| YSI IV               | 6,279                                                        | 6,299                | 5.25                                               | % 7/1/2010       |
| YSI XXV              | 8,277                                                        | 8,304                | 5.00                                               | % 10/1/2010      |
| YSI XXVI             | 10,120                                                       | 10,175               | 5.00                                               | % 10/1/2010      |
| Promissory Notes     | 125                                                          | 132                  | 5.97                                               | % 11/1/2010      |
| YSI II               | 88,002                                                       | 88,400               | 5.33                                               | % 1/11/2011      |
| YSI XII              | 1,625                                                        | 1,634                | 5.97                                               | % 9/1/2011       |
| YSI XIII             | 1,396                                                        | 1,404                | 5.97                                               | % 9/1/2011       |
| YSI VI               | 80,000                                                       | 80,000               | 5.13                                               | % 8/1/2012       |
| YASKY                | 80,000                                                       | 80,000               | 4.96                                               | % 9/1/2012       |
| YSI XIV              | 1,941                                                        | 1,952                | 5.97                                               | % 1/1/2013       |
| YSI VII              | 3,320                                                        | 3,334                | 6.50                                               | % 6/1/2013       |
| YSI VIII             | 1,897                                                        | 1,905                | 6.50                                               | % 6/1/2013       |
| YSI IX               | 2,087                                                        | 2,096                | 6.50                                               | % 6/1/2013       |
| YSI XVII             | 4,556                                                        | 4,583                | 6.32                                               | % 7/1/2013       |
| YSI XXVII            | 558                                                          | 561                  | 5.59                                               | % 11/1/2013      |
| YSI XXX              | 8,180                                                        | 8,233                | 5.59                                               | % 11/1/2013      |
| YSI XI               | 2,646                                                        | 2,660                | 5.87                                               | % 12/1/2013      |
| YSI V                | 3,494                                                        | 3,513                | 5.25                                               | % 1/1/2014       |
| YSI XXVIII           | 1,703                                                        | 1,712                | 5.59                                               | % 2/1/2014       |
| YSI X                | 4,351                                                        | 4,367                | 5.87                                               | % 1/1/2015       |
| YSI XV               | 2,026                                                        | 2,036                | 6.41                                               | % 1/1/2015       |
| YSI XX               | 70,713                                                       | 71,050               | 5.97                                               | % 11/1/2015      |
| Unamortized premiums | 1,433                                                        | 1,507                |                                                    |                  |
|                      | \$ 586,804                                                   | \$ 588,930           |                                                    |                  |

Total mortgage loans and notes  
payable

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The following table presents the future principal payment requirements on outstanding mortgage loans at March 31, 2007 (in thousands):

|                                 |            |
|---------------------------------|------------|
| 2007                            | \$ 22,778  |
| 2008                            | 16,950     |
| 2009                            | 94,360     |
| 2010                            | 112,428    |
| 2011                            | 88,114     |
| 2012 and thereafter             | 250,741    |
| Total mortgage payments         | 585,371    |
| Plus: Unamortized debt premiums | 1,433      |
| Total mortgage indebtedness     | \$ 586,804 |

### 7. MINORITY INTERESTS

Operating Partnership minority interests relate to the interests in the Operating Partnership that are not owned by the Company, which, at March 31, 2007 and December 31, 2006, amounted to approximately 8.3%.

In conjunction with the formation of the Company, certain former owners contributed facilities to the Operating Partnership and received units in the Operating Partnership concurrently with the closing of the IPO. Limited partners who acquired Operating Partnership units in the formation transactions have the right, effective October 27, 2005, to require the Operating Partnership to redeem part or all of their Operating Partnership units for cash or, at the Company's option, common shares, based upon the fair market value of an equivalent number of common shares for which the Operating Partnership units would have been redeemed if the Company had assumed and satisfied the Operating Partnership's obligation by paying common shares. The market value of the Company's common shares for this purpose 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 day on which the Company received the redemption notice. Upon consummation of the IPO, the carrying value of the net assets of the Operating Partnership was allocated to minority interests. Pursuant to three contribution agreements and three option exercises in 2005, entities owned by the Company's former Chief Executive Officer and one of its former Trustees received an aggregate of 1,524,358 Operating Partnership units for six facilities with a net historical basis of \$7.3 million.

In conjunction with the National Self Storage acquisition, National Self Storage received 3,674,497 Operating Partnership units. As provided in the partnership agreement of the Operating Partnership, these units are redeemable by the unitholders for cash or, at the Company's option, common shares, on a one-for-one basis.

### 8. RELATED PARTY TRANSACTIONS

Robert J. Amsdell, former Chief Executive Officer and Chairman of the Board of Trustees, retired from the Board effective as of February 13, 2007. Barry L. Amsdell submitted his letter of resignation from the Board on February 20, 2007. Effective as of February 19, 2007 the Amended and Restated Employment Agreement of Todd C. Amsdell, President of U-Store-It Development LLC, a subsidiary of the Company, was terminated.

#### Acquisition of Facilities

In connection with the IPO, the Company entered into option agreements with Rising Tide Development, a company owned and controlled by Robert J. Amsdell and Barry L. Amsdell to acquire 18 self-storage facilities, consisting, as of March 31, 2007, of 14 facilities owned by Rising Tide Development, one facility which Rising Tide Development has the right to acquire from an unaffiliated third party and three facilities which have since been acquired by the Company pursuant to the exercise of its options. The options become exercisable with respect to each particular self-storage facility if and when that facility achieves a month-end occupancy level of 85% for three consecutive months. None of the remaining self-storage facilities that we have the option to purchase met the occupancy requirement as of March 31, 2007. The purchase price will be equal to the lower of (i) a price determined by multiplying in-place net operating income at the time of purchase by 12.5 and (ii) the fair market value of the option facility as determined by an appraisal process involving third party appraisers. The Company's option to acquire these facilities will expire on

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October 27, 2008. The determination to purchase any of the option facilities will be made by the independent members of the Company's Board of Trustees. During 2005, the Company exercised its option to purchase three of these facilities for an aggregate purchase price of approximately \$17.4 million, consisting of an aggregate of \$6.8 million in Operating Partnership units and \$10.6 million in cash after a price reduction of \$1.7 million of consideration in May 2005. The price reduction resulted from a discovery that the calculation of the March purchase price was not made in accordance with the terms specified in the option agreement, which resulted in the overpayment. On May 14, 2005, the Company entered into an agreement with Rising Tide Development pursuant to which 100,202 units in the Operating Partnership previously issued to Rising Tide Development were cancelled and \$28,057 in cash (representing the distribution paid with respect to such units in April 2005) was returned to the Company.

The Company, in accordance with a contract signed on April 3, 2006, acquired nine self-storage facilities from Jernigan Property Group on July 27, 2006 for consideration of approximately \$45.3 million. Our President and Chief Executive Officer, Dean Jernigan, serves as President of Jernigan Property Group and has a 20% beneficial interest in one self-storage facility partially owned by Jernigan Property Group and related companies and partnerships. Mr. Jernigan has agreed that he will not expand his interest, ownership or activity in the self-storage business. Given Mr. Jernigan's appointment as a Trustee and the President and Chief Executive Officer of the Company on April 24, 2006, this transaction was subject to review and final approval by a majority of the independent members of the Company's Board of Trustees. Mr. Jernigan has discontinued all involvement in the day-to-day management or operation of the Jernigan Property Group.

### Management Services

Effective October 27, 2004, YSI Management LLC, a wholly-owned subsidiary of the Operating Partnership, entered into a management contract with Rising Tide Development to provide property management services to the option facilities for a fee equal to the greater of 5.35% of the gross revenues of each facility or \$1,500 per facility per month. Management fees earned by YSI Management LLC, from Rising Tide Development, were approximately \$0.1 million for each of the three month periods ended March 31, 2007 and 2006, and are included in other related party revenues. Accounts receivable from Rising Tide Development at March 31, 2007 and December 31, 2006 were each approximately \$0.6 million, and are included in due from related parties. These amounts represent expenses paid on behalf of Rising Tide Development by YSI Management LLC and proceeds from the sale of ancillary items that will be reimbursed under standard business terms.

Historically, the Company engaged Amsdell Construction, a company owned by Robert J. Amsdell and Barry L. Amsdell, to maintain and improve its self-storage facilities. The total payments incurred by the Company to Amsdell Construction during 2006 was approximately \$42,000 (approximately \$11,000 for the three months ended March 31, 2006). The Company did not engage Amsdell Construction during 2007.

### Corporate Office Leases

During 2005 and 2006, our Operating Partnership entered into various office lease agreements with Amsdell and Amsdell, an entity owned by Robert J. Amsdell and Barry L. Amsdell. Pursuant to these lease agreements, during 2006 we rented office space from Amsdell and Amsdell at The Parkview Building, a multi-tenant office building of approximately 40,000 square feet located at 6745 Engle Road, an office building of approximately 18,000 square feet located at 6751 Engle Road, and an office building of approximately 28,000 square feet located at 6779 Engle Road. Each of these properties is part of Airport Executive Park, a 50-acre office and flex development located in Cleveland, Ohio, which is owned by Amsdell and Amsdell. Our independent Trustees approved the terms of, and entry into, each of the office lease agreements by our Operating Partnership. The table below shows the office space subject to these lease agreements and certain key terms, including the term of each lease agreement, the period for which our Operating Partnership may extend the term of each lease agreement, and the minimum and maximum rents payable per month during the term.

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|                                                                                  | Approximate<br>Square Footage | Term       | Period of<br>Extension Option(1) | Fixed Minimum<br>Rent Per Month | Fixed<br>Maximum Rent<br>Per Month |
|----------------------------------------------------------------------------------|-------------------------------|------------|----------------------------------|---------------------------------|------------------------------------|
| Office Space<br>The Parkview Building<br>6745 Engle Road; and<br>6751 Engle Road | 21,900                        | 12/31/2014 | Five-year                        | \$ 25,673                       | \$ 31,205                          |
| 6745 Engle Road<br>Suite 100                                                     | 2,212                         | 12/31/2014 | Five-year                        | \$ 3,051                        | \$ 3,709                           |
| 6745 Engle Road<br>Suite 110                                                     | 1,731                         | 12/31/2014 | Five-year                        | \$ 2,387                        | \$ 2,901                           |
| 6751 Engle Road<br>Suites C and D                                                | 3,000                         | 12/31/2014 | Five-year                        | \$ 3,137                        | \$ 3,771                           |
| 6779 Engle Road<br>Suites G and H                                                | 3,500                         | 12/31/2008 | Five-year                        | \$ 3,079                        | \$ 3,347                           |
| 6745 Engle Road<br>Suite 120                                                     | 1,600                         | 4/30/2007  | Three-year                       | \$ 1,800                        | \$ 1,900                           |
| 6779 Engle Road<br>Suites I and J                                                | 3,500                         | (2 )       | N/A                              | \$ 3,700                        | N/A                                |

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

(2) In June 2006, our Operating Partnership terminated this lease agreement which had a month-to-month term.

In addition to monthly rent, the office lease agreements provide that our 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 each of the three months ended March 31, 2007 and 2006 was approximately \$0.1 million.

Total future minimum rental payments under the related party lease agreements entered into as of March 31, 2007 are as follows:

|                     | Related Party<br>Amount<br>(in thousands) |
|---------------------|-------------------------------------------|
| 2007                | \$ 356                                    |
| 2008                | 468                                       |
| 2009                | 453                                       |
| 2010                | 453                                       |
| 2011                | 475                                       |
| 2012 and thereafter | 1,473                                     |
|                     | \$ 3,678                                  |

## Aircraft Lease

The Company chartered an aircraft from Aqua Sun Investments, L.L.C. ( Aqua Sun ), a company owned by Robert J. Amsdell and Barry L. Amsdell. The Company was under contract pursuant to a timesharing agreement to reimburse Aqua Sun at the rate of \$1,250 for each hour of use of the aircraft and the payment of certain expenses associated with the use of the aircraft. As described in the paragraph below, effective June 30, 2005 the timesharing agreement was terminated by mutual agreement of the parties thereto and was replaced on July 1, 2005 with a non-exclusive aircraft lease agreement with Aqua Sun (the Aircraft Lease ). The Company's independent Trustees approved the terms of, and the entry into, the Aircraft Lease by the Operating Partnership.

The Operating Partnership may lease for corporate use from time to time an airplane owned by Aqua Sun at an hourly rate of \$1,450 per flight hour. Aqua Sun is responsible for various costs associated with operation of the airplane, including insurance, storage and maintenance and repair, but the Operating Partnership is responsible for fuel costs and the costs of pilots and other cabin personnel required for its use of the airplane. The Aircraft Lease, which was effective as of July 1, 2005, had a one-year term and was terminated on June 30, 2006. The total

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amounts incurred for such aircraft charters described above by the Company for the three months ended March 31, 2006 was approximately \$0.1 million. No amounts were incurred during 2007.

### Other

During the fourth quarter of 2006, the Company engaged a consultant to assist us in establishing certain development protocols and processes. In connection with that assignment, our outside consultant utilized the services of Dean Jernigan's son-in-law. Our payments for his son-in-law's services totaled \$4,750 in 2006.

The Company engaged Dunlevy Building Systems Inc., a company owned by John Dunlevy, a brother-in-law of Robert J. Amsdell and Barry L. Amsdell, for construction, zoning consultant and general contractor services at certain of its self-storage facilities. The

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total payments incurred by the Company to Dunlevy Building Systems Inc. for the three months ended March 31, 2006 was approximately \$11,000. No payments were incurred in 2007.

### Registration Rights

Robert J. Amsdell, Barry L. Amsdell, Todd C. Amsdell and the Amsdell Entities that acquired common shares or Operating Partnership units in the formation transactions which took place at the time of the IPO received certain registration rights. An aggregate of approximately 9.7 million common shares acquired in the formation transactions were subject to a registration rights agreement (including approximately 1.1 million shares issuable upon redemption of approximately 1.1 million Operating Partnership units issued in the formation transactions).

In addition, Rising Tide Development received registration rights with respect to the Operating Partnership units it received in connection with the Company's acquisition of three option facilities. An aggregate of approximately 0.4 million common shares (which shares are issuable upon redemption of approximately 0.4 million Operating Partnership units issued in connection with the Company's option exercises) were subject to a registration rights agreement.

In March 2007, the Company filed a Registration Statement on Form S-3 to satisfy all of the abovementioned registration rights.

### **9. PRO FORMA FINANCIAL INFORMATION**

During 2006, the Company acquired 60 self-storage facilities for an aggregate purchase price of approximately \$362.4 million. During 2007, the Company acquired three self-storage facilities for an aggregate purchase price of approximately \$19.5 million.

The unaudited condensed consolidated pro forma financial information set forth below reflects adjustments to the Company's historical financial data to give effect to each of the acquisitions and related financing activity that occurred subsequent to January 1, 2006 as if each had occurred on January 1, 2006. The unaudited pro forma information presented below does not purport to represent what the Company's actual results of operations would have been for the periods indicated, nor does it purport to represent the Company's future results of operations.

The following table summarizes, on a pro forma basis, our consolidated results of operations for the three months ended March 31, 2007 and 2006 based on the assumptions described above:

|                                | <b>Three Months Ended March 31,</b>          |             |
|--------------------------------|----------------------------------------------|-------------|
|                                | <b>2007</b>                                  | <b>2006</b> |
|                                | <b>(in thousands, except per share data)</b> |             |
| Pro forma revenue              | \$ 55,532                                    | \$ 54,306   |
| Pro forma net loss             | (3,358 )                                     | (3,077 )    |
| Loss per common share          |                                              |             |
| Basic and diluted as reported  | \$ (0.06 )                                   | \$ (0.03 )  |
| Basic and diluted as pro forma | \$ (0.06 )                                   | \$ (0.05 )  |

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

*The following Management's Discussion and Analysis gives effect to the restatements discussed in Note 2 to the unaudited condensed consolidated financial statements.*

*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 in this report entitled "Risk Factors."*

### Overview

On October 27, 2004, the Company completed its IPO, pursuant to which it sold an aggregate of 28,750,000 common shares (including 3,750,000 shares pursuant to the exercise of the underwriters' over-allotment option) at an offering price of \$16.00 per share. The IPO resulted in gross proceeds to the Company of \$460.0 million. On October 7, 2005, the Company completed a follow-on public offering, pursuant to which it sold an aggregate of 19,665,000 common shares (including 2,565,000 shares pursuant to the exercise of the underwriters' over-allotment option) at an offering price of \$20.35 per share, for gross proceeds of approximately \$400.2 million.

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, 2007 and December 31, 2006, the Company owned 402 and 399 self-storage facilities, respectively, totaling approximately 25.5 and 25.4 million square feet, respectively.

The Company derives revenues principally from rents received from its customers who rent units at its 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 depend on 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, which places an emphasis on local, market level oversight and control, allows us to respond quickly and effectively to changes in local market conditions, where appropriate increasing rents while maintaining occupancy levels, or increasing occupancy levels while maintaining pricing levels.

The Company experiences minor seasonal fluctuations in the occupancy levels of our facilities, which are generally slightly higher during the summer months due to increased moving activity.

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

The Company has one reportable operating segment: we own, operate, develop, and acquire self-storage facilities.

The Company's self-storage facilities are located in major metropolitan areas and have numerous tenants per facility. All our operations are within the United States and no single tenant represents 1% or more of our revenues. The facilities in Florida, California, Illinois and New Jersey provided approximately 19%, 16%, 7% and 6%, respectively, of total revenues for the three months ended March 31, 2007.

### Summary of Critical Accounting Policies and Estimates

Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the unaudited condensed consolidated financial statements included in this report. Certain of the accounting policies used in the preparation of these condensed consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical condensed 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.

### ***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements include all of the accounts of the Company, the Operating Partnership and the wholly-owned subsidiaries of the Operating Partnership.

For analytical presentation, all percentages are calculated using the numbers presented in the financial statements contained in Item 1 of this Form 10-Q.

### ***Self-Storage Facilities***

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

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

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. The Company also considers whether the in-place, at market leases for any facility represent an intangible asset. Based upon the Company's experience, leases of this nature generally re-let in less than 30 days and lease-up costs are minimal. Accordingly, the Company has no intangible assets recorded for in-place, at market leases as of March 31, 2007 and December 31, 2006. Additionally, 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 fair value based on its 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.

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

Typically these criteria are all met when the relevant asset is under contract, significant non-refundable deposits have been made by the potential buyer, the assets are immediately available for transfer and there are no contingencies related to the sale that may prevent the transaction from closing. 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 of 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 incentive award plan. Accordingly, share compensation expense was 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. Compensation expense recorded for the three months ended March 31, 2007 and 2006 was approximately \$0.2 million.

### ***Minority Interests***

Minority Interests include income allocated to holders of the Operating Partnership units. Income is allocated to the minority interests based on their ownership percentage of the Operating Partnership. This ownership percentage, as well as the total net assets of the Operating Partnership, changes when additional shares of our common stock or Operating Partnership units are issued. Such changes result in an allocation between shareholders' equity and Minority Interests in the Consolidated Balance Sheets. Due to the number of such capital transactions that occur each period, we present the single net effect of all such allocations for the period as "Adjustment for Minority Interest in Operating Partnership" in our Consolidated Statements of Shareholders' Equity (rather than separately allocating the minority interests for each individual capital transaction).

### ***Recent Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. The Company believes that the adoption of this standard on January 1, 2008 will not have a material effect on our consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective for the Company on January 1, 2007. The adoption of this standard had no impact on the consolidated financial statements.

### ***Results of Operations***

The following discussion of our results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes thereto. Historical results set forth in the condensed 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 activities in 2007 and 2006. At March 31, 2007 and 2006, the Company owned 402 and 374 self-storage facilities and related assets, respectively.

The following table summarizes the acquisitions that the Company completed during the three months ended March 31, 2007:

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| Facility/Portfolio      | Acquisition Date  | Total Rentable Square Feet | Number of Units | Occupancy as of March 31, 2007 | Total Number of Facilities | Purchase Price (000s) |
|-------------------------|-------------------|----------------------------|-----------------|--------------------------------|----------------------------|-----------------------|
| Sanford Portfolio       | January 2007      | 72,550                     | 593             | 17.51                          | % 1                        | \$ 6,300              |
| Grand Central Portfolio | January 2007      | 166,090                    | 1,474           | 86.17                          | % 2                        | 13,200                |
|                         | <b>2007 Total</b> | <b>238,640</b>             | <b>2,067</b>    |                                | <b>3</b>                   | <b>\$ 19,500</b>      |

The acquisitions listed are included in the Company's results of operation from and after the acquisition date.

A comparison of net loss for the three months ended March 31, 2007 and March 31, 2006 is as follows (in thousands):

|                                                                        | Three Months Ended March 31, |             |
|------------------------------------------------------------------------|------------------------------|-------------|
|                                                                        | 2007                         | 2006        |
| <b>REVENUES</b>                                                        |                              |             |
| Rental income                                                          | \$ 51,133                    | \$ 44,994   |
| Other property related income                                          | 4,282                        | 3,101       |
| Other related party                                                    | 117                          | 115         |
| Total revenues                                                         | 55,532                       | 48,210      |
| <b>OPERATING EXPENSES</b>                                              |                              |             |
| Property operating expenses                                            | 23,239                       | 18,917      |
| Property operating expenses related party                              | 37                           | 20          |
| Depreciation                                                           | 16,767                       | 14,672      |
| General and administrative                                             | 5,888                        | 5,389       |
| General and administrative related party                               | 101                          | 177         |
| Total operating expenses                                               | 46,032                       | 39,175      |
| <b>OPERATING INCOME</b>                                                | 9,500                        | 9,035       |
| <b>OTHER INCOME (EXPENSE)</b>                                          |                              |             |
| Interest:                                                              |                              |             |
| Interest expense on loans                                              | (12,826 )                    | (10,000 )   |
| Loan procurement amortization expense                                  | (445 )                       | (462 )      |
| Write-off of loan procurement cost due to early extinguishment of debt |                              | (1,273 )    |
| Interest income                                                        | 115                          | 884         |
| Other                                                                  | (6 )                         | 42          |
| Total other expense                                                    | (13,162 )                    | (10,809 )   |
| <b>LOSS BEFORE MINORITY INTERESTS</b>                                  | (3,662 )                     | (1,774 )    |
| <b>MINORITY INTERESTS</b>                                              | 304                          | 149         |
| <b>NET LOSS</b>                                                        | \$ (3,358 )                  | \$ (1,625 ) |

***Comparison of Operating Results for the Three Months Ended March 31, 2007 and March 31, 2006***

***Total Revenues***

Rental income increased from \$45.0 million for the three months ended March 31, 2006 to \$51.1 million for the three months ended March 31, 2007, an increase of \$6.1 million, or 14%. This increase is primarily attributable to additional rental income from the 2006 and 2007 Acquisitions and an increase in rental income from our pool of same-store facilities of approximately \$0.5 million.

Other property related income, including Other- related party, increased from \$3.2 million for the three months ended March 31, 2006 to \$4.4 million for the three months ended March 31, 2007, an increase of \$1.1 million, or 37%. This increase is primarily attributable to the other property income from the 2006 and 2007 Acquisitions.

***Total Operating Expenses***

Property operating expenses increased from \$18.9 million for the three months ended March 31, 2006 to \$23.3 million for the three months ended March 31, 2007, an increase of \$4.3 million, or 23%. This increase is primarily attributable to additional operating expenses from the 2006 and 2007 Acquisitions and an increase in operating expenses from our same-store facilities of approximately \$1.1 million.

General and administrative expenses, including General and administrative related party, increased from \$5.6 million for the three months ended March 31, 2006 to \$6.0 million for the three months ended March 31, 2007, an increase of \$0.4 million, or 8%. The 2007 period includes approximately \$1.0 million of legal and other costs associated with the previously disclosed restatements and inquiry. Depreciation increased from \$14.7 million for the three months ended March 31, 2006 to \$16.8 million for the three months ended March 31, 2007, an increase of \$2.1 million, or 14%. The increase is primarily attributable to additional depreciation expense related to the 2006 and 2007 Acquisitions.

***Total Other Expenses***

Interest expense increased from \$10.0 million for the three months ended March 31, 2006 to \$12.8 million for the three months ended March 31, 2007, an increase of \$2.8 million, or 28%. The increase is attributable to a higher amount of outstanding debt during the three months ended March 31, 2007, primarily resulting from the financing of certain of the 2006 and 2007 Acquisitions with additional borrowings.

In conjunction with replacing the credit facility in February 2006, the Company incurred charges of \$1.3 million relating to the write-off of unamortized loan procurement costs.

Interest income decreased to \$0.1 million for the three months ended March 31, 2007 from \$0.9 million for the three months ended March 31, 2006. This decrease is primarily attributable to the Company's 2005 follow-on public offering. The Company invested excess proceeds from the follow-on offering in interest bearing accounts and in short-term marketable securities until the excess proceeds were used to fund acquisitions or pay down existing debt during the three months ended March 31, 2006.

**Same-Store Facility Results**

The Company considers its same-store portfolio to consist of only those facilities owned at the beginning and at the end of the applicable periods presented. The following same-store presentation is considered to be useful to investors in evaluating our performance because it provides information relating to changes in facility-level operating performance without taking into account the effects of acquisitions, developments or dispositions. The following table sets forth operating data for our same-store portfolio for the periods presented.

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## Comparison of the Three Months Ended March 31, 2007 to the Three Months Ended March 31, 2006

The following table provides information pertaining to our same-store portfolio for the three months ended March 31, 2007 and 2006 (dollars in thousands):

|                                                                        | Same Store Property Portfolio |           |                      |          | Properties Acquired |          | Other/ Eliminations |       | Total Portfolio |             |                      |          |   |
|------------------------------------------------------------------------|-------------------------------|-----------|----------------------|----------|---------------------|----------|---------------------|-------|-----------------|-------------|----------------------|----------|---|
|                                                                        | 2007                          | 2006      | Increase/ (Decrease) | % Change | 2007                | 2006     | 2007                | 2006  | 2007            | 2006        | Increase/ (Decrease) | % Change |   |
| REVENUES:                                                              |                               |           |                      |          |                     |          |                     |       |                 |             |                      |          |   |
| Rental income                                                          | \$ 42,449                     | \$ 42,047 | \$ 402               | 1        | % \$ 8,684          | \$ 2,947 | \$                  | \$    | \$ 51,133       | \$ 44,994   | \$ 6,139             | 14       | % |
| Other property related income                                          | 3,456                         | 2,875     | 581                  | 20       | % 826               | 226      |                     |       | 4,282           | 3,101       | 1,181                | 38       | % |
| Other related party                                                    |                               |           |                      |          |                     |          | 117                 | 115   | 117             | 115         | 2                    | 2        | % |
| Total revenues                                                         | 45,905                        | 44,922    | 983                  | 2        | % 9,510             | 3,173    | 117                 | 115   | 55,532          | 48,210      | 7,322                | 15       | % |
| OPERATING EXPENSES:                                                    |                               |           |                      |          |                     |          |                     |       |                 |             |                      |          |   |
| Property operating expenses                                            | 18,295                        | 17,172    | 1,123                | 7        | % 4,944             | 1,745    |                     |       | 23,239          | 18,917      | 4,322                | 23       | % |
| Property operating expenses related party                              |                               |           |                      |          |                     |          | 37                  | 20    | 37              | 20          | 17                   | 85       | % |
| Subtotal                                                               | 18,295                        | 17,172    | 1,123                | 7        | % 4,944             | 1,745    | 37                  | 20    | 23,276          | 18,937      | 4,339                | 23       | % |
| NET OPERATING INCOME:                                                  |                               |           |                      |          |                     |          |                     |       |                 |             |                      |          |   |
| Depreciation                                                           | \$ 27,610                     | \$ 27,750 | \$ (140 )            | -1       | % \$ 4,566          | \$ 1,428 | \$ 80               | \$ 95 | \$ 32,256       | \$ 29,273   | \$ 2,983             | 10       | % |
| General and administrative                                             |                               |           |                      |          |                     |          |                     |       | 16,767          | 14,672      | 2,095                | 14       | % |
| General and administrative related party                               |                               |           |                      |          |                     |          |                     |       | 5,888           | 5,389       | 499                  | 9        | % |
| Subtotal                                                               |                               |           |                      |          |                     |          |                     |       | 101             | 177         | (76 )                | -43      | % |
| Operating income                                                       |                               |           |                      |          |                     |          |                     |       | 22,756          | 20,238      | 2,518                | 12       | % |
| Other Income                                                           |                               |           |                      |          |                     |          |                     |       | 9,500           | 9,035       | 465                  | 5        | % |
| (Expense):                                                             |                               |           |                      |          |                     |          |                     |       |                 |             |                      |          |   |
| Interest:                                                              |                               |           |                      |          |                     |          |                     |       |                 |             |                      |          |   |
| Interest expense on loans                                              |                               |           |                      |          |                     |          |                     |       | (12,826 )       | (10,000 )   | (2,826 )             | 28       | % |
| Loan procurement amortization expense                                  |                               |           |                      |          |                     |          |                     |       | (445 )          | (462 )      | 17                   | -4       | % |
| Write-off of loan procurement cost due to early extinguishment of debt |                               |           |                      |          |                     |          |                     |       |                 | (1,273 )    | 1,273                | -100     | % |
| Interest income                                                        |                               |           |                      |          |                     |          |                     |       | 115             | 884         | (769 )               | -87      | % |
| Other                                                                  |                               |           |                      |          |                     |          |                     |       | (6 )            | 42          | (48 )                | -114     | % |
| Total other expense                                                    |                               |           |                      |          |                     |          |                     |       | (13,162 )       | (10,809 )   | (2,353 )             | 22       | % |
| LOSS BEFORE MINORITY INTERESTS                                         |                               |           |                      |          |                     |          |                     |       |                 |             |                      |          |   |
| MINORITY INTERESTS                                                     |                               |           |                      |          |                     |          |                     |       | (3,662 )        | (1,774 )    | (1,888 )             | 106      | % |
| MINORITY INTERESTS                                                     |                               |           |                      |          |                     |          |                     |       | 304             | 149         | 155                  | 104      | % |
| NET LOSS                                                               |                               |           |                      |          |                     |          |                     |       | \$ (3,358 )     | \$ (1,625 ) | \$ (1,733 )          | 107      | % |

Same-store revenues increased from \$44.9 million for the three months ended March 31, 2006 to \$45.9 million for the three months ended March 31, 2007, an increase of \$1.0 million, or 2%. Same-store property operating expenses increased from \$17.2 million for the three months ended March 31, 2006 to \$18.3 million for the three months ended March 31, 2007, an increase of \$1.1 million, or 2%. This increase was primarily attributable to increased insurance and real estate tax expenses.

## Non-GAAP Financial Measures

### NOI

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We define net operating income, which we refer to as NOI, as total continuing revenues less continuing property operating expenses. NOI also can be calculated by adding back to net income: interest expense on loans, loan procurement amortization expense, early extinguishment of debt, minority interest, loss on sale of storage facilities, other, depreciation and general and administrative; and deducting from net income: income from discontinued operations, gains on sale of self-storage facilities and interest income. NOI is not a measure of performance calculated in accordance with GAAP.

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

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

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

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

### Cash Flows

#### *Comparison of the Three Months Ended March 31, 2007 to the Three Months Ended March 31, 2006*

A comparison of cash flow operating, investing and financing activities for the three months ended March 31, 2007 and 2006 is as follows:

|                                      | Three Months Ended March 31, |             |          |
|--------------------------------------|------------------------------|-------------|----------|
|                                      | 2007                         | 2006        | Change   |
|                                      | (in millions)                |             |          |
| Net cash flow provided by (used in): |                              |             |          |
| Operating activities                 | \$ 12.9                      | \$ 8.3      | \$ 4.6   |
| Investing activities                 | \$ (23.7 )                   | \$ (123.1 ) | \$ 99.4  |
| Financing activities                 | \$ (3.3 )                    | \$ 26.1     | \$ (29.4 |

Cash provided by operating activities increased from \$8.3 million in 2006 to \$12.9 million in 2007, an increase of \$4.6 million, or 55%. The increase is primarily attributable to the incremental impact of the 2006 and 2007 Acquisitions.

Cash used in investing activities decreased from \$123.1 million in 2006 to \$23.7 million in 2007, a decrease of \$99.4 million, or 81%. The decrease in cash used in investing activities is primarily attributable to (i) significantly higher acquisition activity in the 2006 period (35 facilities for an aggregate purchase price of \$222.4 million) relative to the 2007 period (3 facilities for an aggregate purchase price of \$19.5 million), offset by (ii) proceeds from the sale of marketable securities in the 2006 period of \$95.2 million compared to no similar activity in the 2007 period.

Cash provided by financing activities decreased by \$29.4 million year over year primarily attributable to more borrowings on revolving credit facilities to fund acquisitions in the 2006 period (\$46.0 million of borrowings) than in the 2007 period (\$17.0 million of net borrowings).



## Liquidity and Capital Resources

As of March 31, 2007, we had approximately \$5.6 million in available cash and cash equivalents. In addition, we had approximately \$142.5 million of available borrowings under our revolving credit facility.

In February 2006, our Operating Partnership entered into a new three-year, \$250.0 million unsecured revolving credit facility. The credit facility allowed us to increase the amount that could be borrowed up to \$350.0 million at a later date. The facility was scheduled to mature in February 2009, with the option for a one-year extended maturity date. Borrowings under the facility bore interest, at our option, at either an alternative base rate or a Eurodollar rate, in each case, plus an applicable margin depending on our leverage ratio. 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 ranged from 0.15% to 0.60%. The Eurodollar rate is a periodic fixed rate equal to LIBOR. The applicable margin for the Eurodollar rate ranged from 1.15% to 1.60%. We used the credit facility principally to finance acquisitions, development of self-storage facilities, debt repayments and for general working capital purposes. Upon entering into this agreement, we utilized the facility to repay a \$30.0 million 60-day term loan. Amounts borrowed under this facility were repaid using proceeds from a new credit facility in November 2006.

In November 2006, we and our Operating Partnership entered into a 30-day, unsecured \$50 million term loan agreement with Wachovia Bank, National Association as the lender. The term loan bore interest at a variable rate of LIBOR plus 115 basis points. The loan proceeds, along with borrowings under our revolving credit facility, were used to finance the repayment of certain maturing secured loans. The loan was paid in full from proceeds obtained upon entering into a new revolving credit facility in November 2006.

In November 2006, we and our Operating Partnership entered into a new three-year \$450.0 million unsecured credit facility with Wachovia Capital Markets, LLC and Keybank Capital Markets, replacing our existing \$250.0 million unsecured revolving facility. The facility consists of a \$200 million term loan and a \$250 million revolving credit facility. The new facility has a three-year term with a one-year extension option and scheduled termination in November 2009. 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 grade rating, and will vary from 0.425% to 1.00% depending on our credit rating after achieving an investment grade rating.

Our ability to borrow under this new credit facility will be subject to our ongoing compliance with the following financial covenants, among others:

- Maximum total indebtedness to total asset value of 65%;
- Minimum interest coverage ratio of 2.0:1.0;
- Minimum fixed charge coverage ratio of 1.6:1.0; and
- Minimum tangible net worth of \$673.2 million plus 75% of net proceeds from future equity issuances.

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

In order to qualify as a REIT for federal income tax purposes, we are required to distribute at least 90% of our REIT taxable income, excluding capital gains, to our shareholders on an annual basis or pay federal income tax.



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The nature of our business, coupled with the requirement that we distribute a substantial portion of our income on an annual basis, will cause us to have substantial liquidity needs over both the short term and the long term. Our short-term liquidity needs consist primarily of funds necessary to pay operating expenses associated with our facilities, refinancing of certain mortgage indebtedness, interest expense and scheduled principal payments on debt, expected distributions to limited partners and shareholders and recurring capital expenditures. These expenses, as well as the amount of recurring capital expenditures that we incur, will vary from year to year, in some cases significantly. For 2007 we expect to incur costs for recurring capital expenditures of approximately \$7 to \$10 million. We expect to meet our short-term liquidity needs through cash generated from operations and, if necessary, from borrowings under our revolving credit facility.

Our long-term liquidity needs consist primarily of funds necessary to pay for development of new facilities, redevelopment of operating facilities, non-recurring capital expenditures, acquisitions of facilities and repayment of indebtedness at maturity. In particular, we intend to actively pursue the acquisition of additional facilities, which will require additional capital. We do not expect that we will have sufficient funds on hand to cover these long-term cash requirements. We will have to satisfy these needs through either additional borrowings, including borrowings under our revolving credit facility, sales of common or preferred shares and/or cash generated through facility dispositions and joint venture transactions.

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, due to our limited history as a public company, 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. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about us.

### Contractual Obligations

The following table summarizes our known contractual obligations as of March 31, 2007:

|                                                   | Payments Due by Period |           |               |               |                     |
|---------------------------------------------------|------------------------|-----------|---------------|---------------|---------------------|
|                                                   | Total                  | 2007      | 2008 and 2009 | 2010 and 2011 | 2012 and thereafter |
| Mortgage loans and notes payable(a)               | 585,371                | \$ 22,778 | \$ 111,310    | \$ 200,542    | \$ 250,741          |
| Revolving credit facility and unsecured term loan | 307,500                |           | 307,500       |               |                     |
| Interest payments                                 | 177,856                | 37,976    | 81,439        | 36,506        | 21,935              |
| Ground leases and third party office lease        | 2,922                  | 375       | 894           | 856           | 797                 |
| Related party office leases                       | 3,678                  | 356       | 921           | 928           | 1,473               |
| Software contracts                                | 1,015                  | 315       | 700           |               |                     |
| Employment contracts                              | 3,002                  | 1,106     | 1,363         | 533           |                     |
|                                                   | \$ 1,081,344           | \$ 62,906 | \$ 504,127    | \$ 239,365    | \$ 274,946          |

(a) Amounts do not include unamortized discounts/premiums.

We expect that the contractual obligations owed in 2007 will be satisfied by a combination of cash generated from operations and from draws on the revolving credit facility.

### Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's future income, cash flows and fair values relevant to financial instruments depend upon prevailing interest rates.

## Market Risk

Our investment policy relating to cash and cash equivalents is to preserve principal and liquidity while maximizing the return through investment of available funds. The carrying value of these investments approximates fair value on the reporting dates.

## Effect of Changes in Interest Rates on our Outstanding Debt

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market rates. The range of changes chosen reflects our view of changes which are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates chosen.

Our financial instruments consist of both fixed and variable rate debt. As of March 31, 2007, our consolidated debt consisted of \$586.8 million in fixed rate loans payable, \$107.5 million borrowings under our variable rate revolving credit facility and \$200.0 million in a variable rate unsecured term loan. All financial instruments were entered into for other than trading purposes and the net market value of these financial instruments is referred to as the net financial position. Changes in interest rates have different impacts on the fixed and variable rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position, but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the net financial instrument position.

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$3.1 million a year. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately \$3.1 million a year.

If market rates of interest increase by 1%, the fair value of our outstanding fixed-rate mortgage debt would decrease by approximately \$22.1 million. If market rates of interest decrease by 1%, the fair value of our outstanding fixed-rate mortgage debt would increase by approximately \$23.2 million.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (including the additional review necessary to confirm the fair presentation in the financial statements in light of the material weaknesses discussed below) as of the end of the period covered by this report have been designed and are functioning effectively. Such disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Management is required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures.

### Material Weaknesses Previously Disclosed

In connection with the preparation of its Annual Report on Form 10-K, the Company identified certain accounting errors that led it to conclude that its previously issued financial statements should be restated due to a misclassification of marketable securities held at December 31, 2005 as cash and cash equivalents. In connection with correcting this error, management restated the prior period financial statements for additional historical errors related to cash and cash equivalents, marketable securities, restricted cash, distributions payable, rental revenues, workers compensation expense, loan procurement cost amortization, and several other matters. In connection with the restatement, management determined that there were material weaknesses in the operation of our internal controls over financial reporting, as more fully described below.

- we did not have sufficient personnel in our accounting department with requisite skills and competencies or appropriate depth of experience to assure the preparation of accurate interim and annual financial statements on a timely basis in accordance with generally accepted accounting principles

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- We did not have adequate monitoring controls and the appropriate personnel with the requisite skills and competencies to execute an adequate level of oversight to accurately account for the results of our operations, which adversely affected our ability to report our financial results in a timely and accurate manner
- We lacked robust risk assessment processes, including strategic plans, that clearly defined and communicated our goals and objectives throughout our organization.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. These control weaknesses resulted in a more than remote likelihood that a material misstatement would not be prevented or detected by management before SEC filing deadlines.

We are continuing to implement changes and will assess the operating effectiveness of these changes prior to concluding that our remediation efforts are complete. Although our remediation efforts are not yet finished, management is committed to remediate the material weaknesses as expeditiously as possible and currently believes that they will be remediated by year-end.

### Changes in Internal Controls Over Financial Reporting

We have taken the following remediation activities to address these material weaknesses:

- On April 24, 2006, the Company announced that Robert J. Amsdell would relinquish the role of Chief Executive Officer and retain the role of non-executive Chairman
- On April 24, 2006, the Company hired a new President and Chief Executive Officer, Dean Jernigan
- On June 5, 2006, the Company hired a new Chief Financial Officer, Christopher P. Marr
- During the third quarter of 2006, the Company terminated its relationship with its former Treasurer and Principal Accounting Officer and its former Controller and Compliance Officer
- On July 10, 2006, the Company hired a new Senior Vice President of Operations, Stephen R. Nichols
- During the third quarter of 2006 the Company completed its conversion to a new revenue management software system, Centershift® STORE TM, which provides the Company with an enhanced and automated rental management and point-of-sale software solution. This new system did not require customization by the Company or its vendor. Pre-implementation testing and post-implementation reviews were conducted by management to ensure that internal controls surrounding the system implementation process, the applications and the closing process were properly designed to prevent material financial statement errors
- On December 11, 2006, the Company hired a new Chief Accounting Officer, Timothy M. Martin
- In December 2006, the Company and its Board of Trustees completed a comprehensive strategic planning process

During the most recent quarter we have taken the following remediation activities to continue to address these material weaknesses:

- On February 5, 2007, the Company hired a new manager of financial reporting
- On February 13, 2007, the Company's non-executive Chairman of the Board retired
- On February 19, 2007, the Company terminated its relationship with its former Chief Operating Officer and President of its Development subsidiary
- The Company is in the process of moving its Finance, Accounting and Information Technology departments to the Philadelphia area and hiring a new finance and accounting staff. We believe this represents a significant change with respect to the personnel responsible for the effectiveness of transaction processing and review activities in our control environment
- The Company has instituted additional procedures around the preparation and review of quarterly financial data including more robust monitoring of budget to actual variance analyses, a broader internal disclosure committee, and an internal sub-certification process



## PART II. OTHER INFORMATION

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting of Shareholders held on May 8, 2007, holders of the Company's common shares elected Thomas A. Commes, John C. Dannemiller, William M. Diefenderfer III, Harold S. Haller, Dean Jernigan, Marianne M. Keler and David J. LaRue as trustees to serve one-year terms expiring at the 2008 Annual Meeting of Shareholders. Shareholders also approved the adoption of the U-Store-It Trust 2007 Equity Incentive Plan.

Following are the final results of the votes cast:

#### Proposal 1. Election of Trustees

|                             | For        | Withheld  |
|-----------------------------|------------|-----------|
| Thomas A. Commes            | 48,031,633 | 4,416,749 |
| John C. Dannemiller         | 51,510,536 | 937,846   |
| William M. Diefenderfer III | 48,054,210 | 4,394,172 |
| Harold S. Haller            | 51,511,085 | 937,297   |
| Dean Jernigan               | 51,538,941 | 909,441   |
| Marianne M. Keler           | 51,622,406 | 825,976   |
| David J. LaRue              | 48,067,060 | 4,381,322 |

#### Proposal 2. Approval of the U-Store-It Trust 2007 Equity Incentive Plan.

|         |            |
|---------|------------|
| For     | 35,502,427 |
| Against | 2,654,940  |
| Abstain | 8,356,083  |

### ITEM 6. EXHIBITS

#### Exhibit No.

|      |                                                                                                                                    |
|------|------------------------------------------------------------------------------------------------------------------------------------|
| 10.1 | U-Store-It Trust 2007 Equity Incentive Plan                                                                                        |
| 10.2 | Form of Non-Qualified Share Option Agreement                                                                                       |
| 10.3 | Form of Performance-Vested Restricted Share Agreement                                                                              |
| 10.4 | Form of Restricted Share Agreement                                                                                                 |
| 10.5 | Indemnification Agreement, dated as of March 22, 2007 by and among U-Store-It Trust, U-Store-It, L.P. and Marianne M. Keler        |
| 10.6 | Amended and Restated Executive Employment Agreement, dated April 20, 2007, by and between U-Store-It Trust and Dean Jernigan       |
| 10.7 | Amended and Restated Executive Employment Agreement, dated April 20, 2007, by and between U-Store-It Trust and Christopher P. Marr |
| 10.8 | Amended and Restated Executive Employment Agreement, dated April 20, 2007, by and between U-Store-It Trust and Timothy M. Martin   |



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- 10.9 Amended and Restated Executive Employment Agreement, dated April 20, 2007, by and between U-Store-It Trust and Stephen R. Nichols
- 10.10 Amended and Restated Executive Employment Agreement, dated April 20, 2007, by and between U-Store-It Trust and Kathleen A. Weigand
- 10.11 Schedule of Compensation for Non-Employee Trustees of U-Store-It Trust, effective May 8, 2007
- 10.12 U-Store-It Trust Equity Incentive Plan Trustee Restricted Share Agreement
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Denotes a management contract or compensatory plan, contract or arrangement.

### SIGNATURES OF REGISTRANT

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

#### U-STORE-IT TRUST

(Registrant)

Date: May 10, 2007

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

Date: May 10, 2007

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