CubeSmart
Form 10-Q
May 06, 2013
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2013.

or

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

For the transition period from ____________to_______________.

Commission file number:
001-32324 (CubeSmart)
000-54662 (CubeSmart, L.P.)

CUBESMART

CUBESMART, L.P.

(Exact Name of Registrant as Specified in its Charter)

Maryland (CubeSmart) **Delaware (CubeSmart, L.P.)** (State or Other Jurisdiction of Incorporation or Organization)	**20-1024732** **34-1837021** (I.R.S. Employer Identification No.)

460 East Swedesford Road

Suite 3000

Wayne, Pennsylvania	**19087**
(Address of Principal Executive Offices)	(Zip Code)

(610) 293-5700

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

CubeSmart:

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

CubeSmart, L.P.:

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

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

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

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

Class	Outstanding at May 2, 2013

Common shares, $0.01 par value per share, of CubeSmart	133,215,734

Table of Contents

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2013 of CubeSmart (the Parent Company or CubeSmart) and CubeSmart, L.P. (the Operating Partnership). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the Company. In addition, terms such as we , us , or our used in this report may refer to the Company, the Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of March 31, 2013, owned a 98.3% interest in the Operating Partnership. The remaining 1.7% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership s day-to-day operations and management.

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

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

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

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

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;

- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and

- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

To help investors understand the significant differences between the Parent Company and the Operating Partnership, this report presents Item 1 Financial Statements as separate sections for each of the Parent Company and the Operating Partnership.

Table of Contents

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

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

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

Table of Contents

TABLE OF CONTENTS

Filing Format

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

Table of Contents

Forward-Looking Statements

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this Report. Any forward-looking statements should be considered in light of the risks and uncertainties referred to in Item 1A. Risk Factors in the Parent Company s and the Operating Partnership s combined Annual Report on Form 10-K for the year ended December 31, 2012 and in our other filings with the Securities and Exchange Commission (SEC). These risks include, but are not limited to, the following:

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

- counterparty non-performance related to the use of derivative financial instruments;
- our ability to maintain our Parent Company s qualification as a real estate investment trust (REIT) for federal income tax purposes;
- acquisition and development risks;
- increases in taxes, fees, and assessments from state and local jurisdictions;
- changes in real estate and zoning laws or regulations;
- risks related to natural disasters;

Table of Contents

- potential environmental and other liabilities;

- other factors affecting the real estate industry generally or the self-storage industry in particular; and

- other risks identified in the Parent Company s and the Operating Partnership s Annual Report on Form 10-K, as amended, and, from time to time, in other reports that we file with the SEC or in other documents that we publicly disseminate.

Given these uncertainties and the other risks identified elsewhere in this Report, we caution readers not to place undue reliance on forward-looking statements. We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise except as may be required by securities laws.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUBESMART AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Storage facilities	$ 2,436,455	$ 2,443,022
Less: Accumulated depreciation	(367,336)	(353,315)
Storage facilities, net	2,069,119	2,089,707
Cash and cash equivalents	2,625	4,495
Restricted cash	5,484	6,070
Loan procurement costs, net of amortization	7,777	8,253
Other assets, net	27,928	41,794
Total assets	$ 2,112,933	$ 2,150,319
LIABILITIES AND EQUITY		
Unsecured senior notes	$ 250,000	$ 250,000
Revolving credit facility	30,000	45,000
Unsecured term loans	500,000	500,000
Mortgage loans and notes payable	226,460	228,759
Accounts payable, accrued expenses and other liabilities	52,405	60,708
Distributions payable	16,455	16,419
Deferred revenue	11,866	11,090
Security deposits	437	444
Total liabilities	1,087,623	1,112,420
Noncontrolling interests in the Operating Partnership	36,036	47,990
Commitments and contingencies		
Equity		
7.75% Series A Preferred shares $.01 par value, 3,220,000 shares authorized, 3,100,000 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	31	31
Common shares $.01 par value, 200,000,000 shares authorized, 133,207,939 and 131,794,547 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	1,332	1,318
Additional paid in capital	1,436,378	1,418,463
Accumulated other comprehensive loss	(18,839)	(19,796)
Accumulated deficit	(429,736)	(410,225)
Total CubeSmart shareholders equity	989,166	989,791

Noncontrolling interest in subsidiaries	108	118
Total equity	989,274	989,909
Total liabilities and equity	$ 2,112,933	$ 2,150,319

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2013		2012	
REVENUES				
Rental income	$	69,618	$	57,317
Other property related income		7,694		5,775
Property management fee income		1,145		1,020
Total revenues		78,457		64,112
OPERATING EXPENSES				
Property operating expenses		30,821		25,943
Depreciation and amortization		29,832		25,083
General and administrative		7,613		6,444
Total operating expenses		68,266		57,470
OPERATING INCOME		10,191		6,642
OTHER INCOME (EXPENSE)				
Interest:				
Interest expense on loans		(10,367)		(9,321)
Loan procurement amortization expense		(476)		(771)
Acquisition related costs		(115)		(551)
Equity in losses of real estate ventures		-		(251)
Other		(73)		(71)
Total other expense		(11,031)		(10,965)
LOSS FROM CONTINUING OPERATIONS		(840)		(4,323)
DISCONTINUED OPERATIONS				
Income from discontinued operations		184		1,065
Gain on disposition of discontinued operations		228		-
Total discontinued operations		412		1,065
NET LOSS		(428)		(3,258)
NET LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership		35		149
Noncontrolling interest in subsidiaries		1		(734)
NET LOSS ATTRIBUTABLE TO THE COMPANY		(392)		(3,843)
Distribution to Preferred Shares		(1,502)		(1,502)
NET LOSS ATTRIBUTABLE TO THE COMPANY s COMMON SHAREHOLDERS	$	(1,894)	$	(5,345)
Basic and diluted loss per share from continuing operations attributable to common shareholders	$	(0.02)	$	(0.05)
Basic and diluted earnings per share from discontinued operations attributable to common shareholders	$	0.01	$	0.01
Basic and diluted loss per share attributable to common shareholders	$	(0.01)	$	(0.04)
Weighted-average basic and diluted shares outstanding		132,951		122,266

AMOUNTS ATTRIBUTABLE TO THE COMPANY S COMMON SHAREHOLDERS:				
Loss from continuing operations	$	(2,299)	$	(6,384)
Total discontinued operations		405		1,039
Net loss	$	(1,894)	$	(5,345)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
NET LOSS	$ (428)	$ (3,258)
Other comprehensive income:		
Unrealized loss on interest rate swap	(309)	-
Reclassification of realized losses on interest rate swap	1,531	688
Unrealized (loss) gain on foreign currency translation	(256)	124
OTHER COMPREHENSIVE INCOME	966	812
COMPREHENSIVE INCOME (LOSS)	538	(2,446)
Comprehensive loss attributable to noncontrolling interests in the Operating Partnership	17	120
Comprehensive loss (income) attributable to noncontrolling interests in subsidiaries	10	(738)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$ 565	$ (3,064)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

(unaudited)

	Common Shares Number	Common Shares Amount	Preferred Shares Number	Preferred Shares Amount	Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Shareholders Equity	Noncontrolling Interest in Subsidiaries	Total Equity	Noncontrolling Interests in the Operating Partnership
Balance at December 31, 2012	131,795	$ 1,318	3,100	$ 31	$ 1,418,463	$ (19,796)	$ (410,225)	$ 989,791	$ 118	$ 989,909	$ 47,990
Issuance of common shares	100	1			1,511			1,512		1,512	
Issuance of restricted shares	211	2						2		2	
Conversion from units to shares	1,013	10			14,591			14,601		14,601	(14,601)
Exercise of stock options	89	1			784			785		785	
Amortization of restricted shares					808			808		808	
Share compensation expense					221			221		221	
Adjustment for noncontrolling interest in the Operating Partnership							(2,915)	(2,915)		(2,915)	2,915
Net loss							(392)	(392)	(1)	(393)	(35)
Other comprehensive gain (loss):											
Unrealized gain on interest rate swap						1,200		1,200		1,200	22
Unrealized loss on foreign currency translation						(243)		(243)	(9)	(252)	(4)
Preferred share distributions							(1,502)	(1,502)		(1,502)	
Common share distributions							(14,702)	(14,702)		(14,702)	(251)
Balance at March 31, 2013	133,208	$ 1,332	3,100	$ 31	$ 1,436,378	$ (18,839)	$ (429,736)	$ 989,166	$ 108	$ 989,274	$ 36,036

	Common Shares Number	Common Shares Amount	Preferred Shares Number	Preferred Shares Amount	Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Shareholders Equity	Noncontrolling Interest in Subsidiaries	Total Equity	Noncontrolling Interests in the Operating Partnership
Balance at December 31, 2011	122,059	$ 1,221	3,100	$ 31	$ 1,309,505	$ (12,831)	$ (342,013)	$ 955,913	$ 39,409	$ 995,322	$ 49,732
Issuance of restricted shares	234	2						2		2	
Exercise of stock options	98	1			767			768		768	

Amortization of restricted shares					170			170		170	
Share compensation expense					313			313		313	
Adjustment for noncontrolling interest in the Operating Partnership							(6,384)	(6,384)		(6,384)	6,384
Net (loss) income							(3,843)	(3,843)	734	(3,109)	(149)
Other comprehensive gain:											
Unrealized gain on interest rate swap						663		663		663	25
Unrealized gain on foreign currency translation						116		116	4	120	4
Preferred share distributions							(1,502)	(1,502)		(1,502)	
Common share distributions							(9,834)	(9,834)	(1,149)	(10,983)	(374)
Balance at March 31, 2012	122,391	$ 1,224	3,100	$ 31	$ 1,310,755	$ (12,052)	$ (363,576)	$ 936,382	$ 38,998	$ 975,380	$ 55,622

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2013	2012
Operating Activities		
Net loss	$ (428)	$ (3,258)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	30,365	27,486
Gain on disposition of discontinued operations	(228)	-
Equity compensation expense	1,029	483
Accretion of fair market value adjustment of debt	(247)	(61)
Equity in losses of real estate venture	-	251
Changes in other operating accounts:		
Other assets	892	(1,235)
Restricted cash	657	102
Accounts payable and accrued expenses	(6,400)	(3,789)
Other liabilities	821	774
Net cash provided by operating activities	$ 26,461	$ 20,753
Investing Activities		
Acquisitions of storage facilities	$ (6,857)	$ (49,840)
Additions and improvements to storage facilities	(4,229)	(3,467)
Development costs	(2,655)	-
Cash distributed from real estate venture	-	366
Proceeds from sales of properties, net	10,993	144
Proceeds from notes receivable	5,192	-
Change in restricted cash	(71)	2
Net cash provided by (used in) investing activities	$ 2,373	$ (52,795)
Financing Activities		
Proceeds from:		
Revolving credit facility	$ 60,600	$ 85,100
Principal payments on:		
Revolving credit facility	(75,600)	(35,100)
Mortgage loans and notes payable	(1,584)	(7,781)
Proceeds from issuance of common shares	1,514	-
Exercise of stock options	785	768
Distributions paid to common shareholders	(14,555)	(9,808)
Distributions paid to preferred shareholders	(1,502)	(1,218)
Distributions paid to noncontrolling interests in Operating Partnership	(362)	(374)
Distributions paid to noncontrolling interests in subsidiaries	-	(1,149)
Net cash (used in) provided by financing activities	$ (30,704)	$ 30,438
Change in cash and cash equivalents	(1,870)	(1,604)
Cash and cash equivalents at beginning of period	4,495	9,069

Cash and cash equivalents at end of period	$	2,625	$	7,465
Supplemental Cash Flow and Noncash Information				
Cash paid for interest, net of interest capitalized	$	14,359	$	8,587
Supplemental disclosure of noncash activities:				
Derivative valuation adjustment	$	1,222	$	688
Foreign currency translation adjustment	$	(256)	$	124
Mortgage loan assumption - acquisition of storage facility	$	-	$	36,961

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Storage facilities	$ 2,436,455	$ 2,443,022
Less: Accumulated depreciation	(367,336)	(353,315)
Storage facilities, net	2,069,119	2,089,707
Cash and cash equivalents	2,625	4,495
Restricted cash	5,484	6,070
Loan procurement costs, net of amortization	7,777	8,253
Other assets, net	27,928	41,794
Total assets	$ 2,112,933	$ 2,150,319
LIABILITIES AND CAPITAL		
Unsecured senior notes	$ 250,000	$ 250,000
Revolving credit facility	30,000	45,000
Unsecured term loan	500,000	500,000
Mortgage loans and notes payable	226,460	228,759
Accounts payable, accrued expenses and other liabilities	52,405	60,708
Distributions payable	16,455	16,419
Deferred revenue	11,866	11,090
Security deposits	437	444
Total liabilities	1,087,623	1,112,420
Operating Partnership interest of third parties	36,036	47,990
Commitments and contingencies		
Capital		
Operating Partner	1,008,005	1,009,587
Accumulated other comprehensive loss	(18,839)	(19,796)
Total CubeSmart L.P. capital	989,166	989,791
Noncontrolling interests in subsidiaries	108	118
Total capital	989,274	989,909
Total liabilities and capital	$ 2,112,933	$ 2,150,319

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per common unit data)

(unaudited)

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
REVENUES				
Rental income	$	69,618	$	57,317
Other property related income		7,694		5,775
Property management fee income		1,145		1,020
Total revenues		78,457		64,112
OPERATING EXPENSES				
Property operating expenses		30,821		25,943
Depreciation and amortization		29,832		25,083
General and administrative		7,613		6,444
Total operating expenses		68,266		57,470
OPERATING INCOME		10,191		6,642
OTHER INCOME (EXPENSE)				
Interest:				
Interest expense on loans		(10,367)		(9,321)
Loan procurement amortization expense		(476)		(771)
Acquisition related costs		(115)		(551)
Equity in losses of real estate ventures		-		(251)
Other		(73)		(71)
Total other expense		(11,031)		(10,965)
LOSS FROM CONTINUING OPERATIONS		(840)		(4,323)
DISCONTINUED OPERATIONS				
Income from discontinued operations		184		1,065
Gain of disposition of discontinued operations		228		-
Total discontinued operations		412		1,065
NET LOSS		(428)		(3,258)
NET LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interest in subsidiaries		1		(734)
NET LOSS ATTRIBUTABLE TO CUBESMART L.P.		(427)		(3,992)
Operating Partnership interest of third parties		35		149
NET LOSS ATTRIBUTABLE TO OPERATING PARTNER		(392)		(3,843)
Distribution to Preferred Units		(1,502)		(1,502)
NET LOSS ATTRIBUTABLE TO COMMON UNITHOLDERS	$	(1,894)	$	(5,345)
Basic and diluted loss per unit from continuing operations attributable to common unitholders	$	(0.02)	$	(0.05)
Basic and diluted earnings per unit from discontinued operations attributable to common unitholders	$	0.01	$	0.01
Basic and diluted loss per unit attributable to common unitholders	$	(0.01)	$	(0.04)
Weighted-average basic and diluted shares outstanding		132,951		122,266

AMOUNTS ATTRIBUTABLE TO COMMON UNITHOLDERS				
Loss from continuing operations	$	(2,299)	$	(6,384)
Total discontinued operations		405		1,039
Net loss	$	(1,894)	$	(5,345)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
NET LOSS	$ (428)	$ (3,258)
Other comprehensive income:		
Unrealized loss on interest rate swap	(309)	-
Reclassification of realized losses on interest rate swap	1,531	688
Unrealized (loss) gain on foreign currency translation	(256)	124
OTHER COMPREHENSIVE INCOME	966	812
COMPREHENSIVE INCOME (LOSS)	538	(2,446)
Comprehensive loss attributable to Operating Partnership interest of third parties	17	120
Comprehensive loss (income) attributable to noncontrolling interests in subsidiaries	10	(738)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO OPERATING PARTNER	$ 565	$ (3,064)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITAL

(in thousands)

(unaudited)

	Number of OP Units Outstanding							
	Common	Preferred	Operating Partner	Accumulated Other Comprehensive (Loss) Income	Total CubeSmart L.P. Capital	Noncontrolling Interest in Subsidiaries	Total Capital	Operating Partnership Interest of Third Parties
Balance at December 31, 2012	131,795	3,100	$ 1,009,587	$ (19,796)	$ 989,791	$ 118	$ 989,909	$ 47,990
Issuance of common OP units	100		1,512		1,512		1,512	
Issuance of restricted OP units	211		2		2		2	
Conversion from units to shares	1,013		14,601		14,601		14,601	(14,601)
Exercise of OP unit options	89		785		785		785	
Amortization of restricted OP units			808		808		808	
OP unit compensation expense			221		221		221	
Adjustment for Operating Partnership interest of third parties			(2,915)		(2,915)		(2,915)	2,915
Net loss			(392)		(392)	(1)	(393)	(35)
Other comprehensive gain (loss):								
Unrealized gain on interest rate swap				1,200	1,200		1,200	22
Unrealized loss on foreign currency translation				(243)	(243)	(9)	(252)	(4)
Preferred OP unit distributions			(1,502)		(1,502)		(1,502)	
Common OP unit distributions			(14,702)		(14,702)		(14,702)	(251)
Balance at March 31, 2013	133,208	3,100	$ 1,008,005	$ (18,839)	$ 989,166	$ 108	$ 989,274	$ 36,036

	Number of OP Units Outstanding							
	Common	Preferred	Operating Partner	Accumulated Other Comprehensive (Loss) Income	Total CubeSmart L.P. Capital	Noncontrolling Interest in Subsidiaries	Total Capital	Operating Partnership Interest of Third Parties
Balance at December 31, 2011	122,059	3,100	$ 968,744	$ (12,831)	$ 955,913	$ 39,409	$ 995,322	$ 49,732
Issuance of restricted OP units	234		2		2		2	
Exercise of OP unit options	98		768		768		768	
Amortization of restricted OP units			170		170		170	
OP unit compensation expense			313		313		313	
Adjustment for Operating Partnership interest of third			(6,384)		(6,384)		(6,384)	6,384

parties								
Net (loss) income			(3,843)		(3,843)	734	(3,109)	(149)
Other comprehensive gain:								
Unrealized gain on interest rate swap				663	663		663	25
Unrealized gain on foreign currency translation				116	116	4	120	4
Preferred OP unit distributions			(1,502)		(1,502)		(1,502)	
Common OP unit distributions			(9,834)		(9,834)	(1,149)	(10,983)	(374)
Balance at March 31, 2012	122,391	3,100	$ 948,434	$ (12,052)	$ 936,382	$ 38,998	$ 975,380	$ 55,622

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2013		2012	
Operating Activities				
Net loss	$	(428)	$	(3,258)
Adjustments to reconcile net loss to cash provided by operating activities:				
Depreciation and amortization		30,365		27,486
Gain on disposition of discontinued operations		(228)		-
Equity compensation expense		1,029		483
Accretion of fair market value adjustment of debt		(247)		(61)
Equity in losses of real estate venture		-		251
Changes in other operating accounts:				
Other assets		892		(1,235)
Restricted cash		657		102
Accounts payable and accrued expenses		(6,400)		(3,789)
Other liabilities		821		774
Net cash provided by operating activities	$	26,461	$	20,753
Investing Activities				
Acquisitions of storage facilities	$	(6,857)	$	(49,840)
Additions and improvements to storage facilities		(4,229)		(3,467)
Development costs		(2,655)		-
Cash distributed from real estate venture		-		366
Proceeds from sales of properties, net		10,993		144
Proceeds from notes receivable		5,192		-
Change in restricted cash		(71)		2
Net cash provided by (used in) investing activities	$	2,373	$	(52,795)
Financing Activities				
Proceeds from:				
Revolving credit facility	$	60,600	$	85,100
Principal payments on:				
Revolving credit facility		(75,600)		(35,100)
Mortgage loans and notes payable		(1,584)		(7,781)
Proceeds from issuance of common OP units		1,514		-
Exercise of OP unit options		785		768
Distributions paid to common unitholders		(14,917)		(10,182)
Distributions paid to preferred unitholders		(1,502)		(1,218)
Distributions paid to noncontrolling interests in subsidiaries		-		(1,149)
Net cash (used in) provided by financing activities	$	(30,704)	$	30,438
Change in cash and cash equivalents		(1,870)		(1,604)

Cash and cash equivalents at beginning of period		4,495		9,069
Cash and cash equivalents at end of period	$	2,625	$	7,465
Supplemental Cash Flow and Noncash Information				
Cash paid for interest, net of interest capitalized	$	14,359	$	8,587
Supplemental disclosure of noncash activities:				
Derivative valuation adjustment	$	1,222	$	688
Foreign currency translation adjustment	$	(256)	$	124
Mortgage loan assumption - acquisition of storage facility	$	-	$	36,961

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUBESMART AND CUBESMART, L.P.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

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

As of March 31, 2013, the Parent Company owned approximately 98.3% of the partnership interests (OP Units) of the Operating Partnership. The remaining OP Units, consisting exclusively of limited partner interests, are held by persons who contributed their interests in properties to us in exchange for OP Units. Under the partnership agreement, these persons have the right to tender their OP Units for redemption to the Operating Partnership at any time for cash equal to the fair value of an equivalent number of common shares of the Parent Company. In lieu of delivering cash, however, the Parent Company, as the Operating Partnership s general partner, may, at its option, choose to acquire any OP Units so tendered by issuing common shares in exchange for the tendered OP Units. If the Parent Company so chooses, its common shares will be exchanged for OP Units on a one-for-one basis. This one-for-one exchange ratio is subject to adjustment to prevent dilution. With each such exchange or redemption, the Parent Company s percentage ownership in the Operating Partnership will increase. In addition, whenever the Parent Company issues common or other classes of its shares, it contributes the net proceeds it receives from the issuance to the Operating Partnership and the Operating Partnership issues to the Parent Company an equal number of OP Units or other partnership interests having preferences and rights that mirror the preferences and rights of the shares issued. This structure is commonly referred to as an umbrella partnership REIT or UPREIT.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC regarding interim financial reporting and, in the opinion of each of the Parent Company s and Operating Company s respective management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows for each respective company for the interim periods presented in accordance with generally accepted accounting principles in the United States (GAAP). Accordingly, readers of this Quarterly Report on Form 10-Q should refer to the Parent Company s and the Operating Partnership s audited financial statements prepared in accordance with GAAP, and the related notes thereto, for the year ended December 31, 2012, which are included in the Parent Company s and the Operating Partnership s Annual Report on Form 10-K for the fiscal year ended December 31, 2012. The results of operations for the three months ended March 31, 2013 and 2012 are not necessarily indicative of the results of operations to be expected for any future period or the full year.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting standard for the reporting of amounts reclassified out of accumulated other comprehensive income (AOCI). The amendment requires entities to disclose for items reclassified out of AOCI and into net income in their entirety, the effect of the reclassification on each affected income statement line item and for AOCI items that are not reclassified in their entirety into net income, a cross reference to other required GAAP disclosures. This amendment became effective for fiscal years and interim periods beginning after December 15, 2012.

Table of Contents

The adoption of this guidance in 2013 did not have a material impact on the Company s consolidated financial position or results of operations as its impact was limited to disclosure requirements (see note 8).

3. STORAGE FACILITIES

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

	March 31, 2013	December 31, 2012
	(in thousands)	
Land	$ 458,446	$ 462,626
Buildings and improvements	1,826,117	1,828,388
Equipment	142,506	143,836
Construction in progress	9,386	8,172
Storage facilities	2,436,455	2,443,022
Less: Accumulated depreciation	(367,336)	(353,315)
Storage facilities, net	$ 2,069,119	$ 2,089,707

Table of Contents

The following table summarizes the Company s acquisition and disposition activity from the period beginning on January 1, 2012 through March 31, 2013:

Facility/Portfolio	Location	Transaction Date	Number of Facilities		Purchase / Sales Price (in thousands)
2013 Acquisitions:					
Gilbert Asset	Gilbert, AZ	March 2013	1	$	6,900
2013 Dispositions:					
Texas/Indiana Assets	Multiple locations in TX and IN	March 2013	5	$	11,400
2012 Acquisitions:					
Houston Asset	Houston, TX	February 2012	1	$	5,100
Dunwoody Asset	Dunwoody, GA	February 2012	1		6,900
Mansfield Asset	Mansfield, TX	June 2012	1		4,970
Texas Assets	Multiple locations in TX	July 2012	4		18,150
Allen Asset	Allen, TX	July 2012	1		5,130
Norwalk Asset	Norwalk, CT	July 2012	1		5,000
Storage Deluxe Assets	Multiple locations in NY and CT	February/ April/ August 2012	6		201,910
Eisenhower Asset	Alexandria, VA	August 2012	1		19,750
New Jersey Assets	Multiple locations in NJ	August 2012	2		10,750
Georgia/ Florida Assets	Multiple locations in GA and FL	August 2012	3		13,370
Peachtree Asset	Peachtree City, GA	August 2012	1		3,100
HSREV Assets	Multiple locations in PA, NY, NJ, VA and FL	September 2012	9		102,000
Leetsdale Asset	Denver, CO	September 2012	1		10,600
Orlando/ West Palm Beach Assets	Multiple locations in FL	November 2012	2		13,010
Exton/ Cherry Hill Assets	Multiple locations in NJ and PA	December 2012	2		7,800
Carrollton Asset	Carrollton, TX	December 2012	1		4,800
			37	$	432,340
2012 Dispositions:					
Michigan Assets	Multiple locations in MI	June 2012	3	$	6,362
Gulf Coast Assets	Multiple locations in LA, AL and MS	June 2012	5		16,800
New Mexico Assets	Multiple locations in NM	August 2012	6		7,500
San Bernardino Asset	San Bernardino, CA	August 2012	1		5,000
Florida/ Tennessee Assets	Multiple locations in FL and TN	November 2012	3		6,550
Ohio Assets	Multiple locations in OH	November 2012	8		17,750
			26	$	59,962

Table of Contents

4. INVESTMENT ACTIVITY

2013 Acquisitions

During the three months ended March 31, 2013, the Company acquired one facility located in Arizona for a purchase price of approximately $6.9 million. In connection with this acquisition, the Company allocated a portion of the purchase price to the intangible value of in-place leases which aggregated $0.6 million. The estimated life of these in-place leases is 12 months and the amortization expense that was recognized during the three months ended March 31, 2013 was approximately $0.1 million.

Development

During the three months ended March 31, 2013, the Company incurred development costs of approximately $2.7 million. To-date, the Company has incurred approximately $7.4 million in costs. These costs are capitalized to construction in progress while under development and are reflected in Storage facilities on the Company s consolidated balance sheets.

2012 Acquisitions

During 2012, as part of the $560 million Storage Deluxe transaction involving 22 Class A self-storage facilities located primarily in the greater New York City area, the Company acquired the final six properties with a purchase price of approximately $201.9 million. The six properties purchased are located in New York and Connecticut. In connection with the acquisitions, the Company allocated a portion of the purchase price to the intangible value of in-place leases which aggregated $12.3 million. The estimated life of these in-place leases is 12 months and the amortization expense that was recognized during the three months ended March 31, 2013 was approximately $2.7 million. In connection with the six acquired facilities, the Company assumed mortgage debt, and recorded the debt at a fair value of $93.1 million, which includes an outstanding principal balance totaling $88.9 million and a net premium of $4.2 million in addition to the face value of the assumed debt to reflect the fair values of the debt at the time of assumption.

On September 28, 2012, the Company purchased, from its joint venture partner, the remaining 50% ownership in a partnership that owned nine storage facilities in Pennsylvania, Virginia, New York, New Jersey and Florida, collectively the HSRE Venture (HSREV), for cash of $21.7 million. In addition, upon taking control of these assets, the Company repaid $59.3 million of mortgage loans related to the properties. Following the purchase, the Company wholly owned the nine storage facilities which were unencumbered and had a fair value of $102 million at acquisition. In connection with this acquisition, the Company allocated a portion of the fair value to the intangible value of in-place leases which aggregated $8.3 million. The estimated life of these in-place leases is 12 months and the amortization expense that was recognized during the three months ended March 31, 2013 was approximately $2.1 million.

During 2012, the Company acquired an additional 22 self-storage facilities located throughout the United States for an aggregate purchase price of approximately $128.4 million. In connection with these acquisitions, the Company allocated a portion of the purchase price to the intangible value of in-place leases which aggregated $13.2 million. The estimated life of these in-place leases is 12 months and the amortization expense that was recognized during the three months ended March 31, 2013 was approximately $3.1 million. In connection with two of the acquired facilities, the Company assumed mortgage debt, and recorded the debt at a fair value of $13.9 million, which includes an outstanding principal balance totaling $13.4 million and a net premium of $0.5 million in addition to the face value of the assumed debt to reflect the fair values of the debt at the time of assumption.

5. UNSECURED SENIOR NOTES

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

Table of Contents

The indenture also contains other financial and customary covenants, including a covenant not to own unencumbered assets with a value less than 150% of the unsecured indebtedness of the Operating Partnership and its consolidated subsidiaries. The Operating Partnership is currently in compliance with all of the financial covenants under the senior notes.

6. REVOLVING CREDIT FACILITY AND UNSECURED TERM LOANS

On June 20, 2011, the Company entered into an unsecured Term Loan Agreement (the Term Loan Facility) which consisted of a $100 million term loan with a five-year maturity and a $100 million term loan with a seven-year maturity. The Company incurred costs of $2.1 million in connection with executing the agreement and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheet. At the Company s current Baa3/BBB- level, pricing on the Term Loan Facility ranges from 1.45% to 2.10% over LIBOR for the five-year loan, and from 1.60% to 2.25% over LIBOR for the seven-year loan.

On December 9, 2011, the Company entered into a new credit facility comprised of a $100 million unsecured term loan maturing in December 2014; a $200 million unsecured term loan maturing in March 2017; and a $300 million unsecured revolving facility maturing in December 2015 (the Credit Facility).

Pricing on the Credit Facility depends on the Company s unsecured debt credit rating. At the Company s current Baa3/BBB- level, amounts drawn under the revolving facility are priced at 1.48% over LIBOR, with no LIBOR floor. Amounts drawn under the term loan portion of the Credit Facility are priced at 1.75% over LIBOR, with no LIBOR floor.

As of March 31, 2013, $200 million of unsecured term loan borrowings were outstanding under the Term Loan Facility, $300 million of unsecured term loan borrowings were outstanding under the Credit Facility, $30 million of unsecured revolving credit facility borrowings were outstanding and $269.8 million was available for borrowing on the unsecured revolving portion of the Credit Facility. The available balance under the unsecured revolving portion of the Credit Facility is reduced by an outstanding letter of credit of $0.2 million. The Company had interest rate swaps as of March 31, 2013, that fix LIBOR on $200 million of borrowings under the Credit Facility maturing in March 2017 at 1.34%. In addition, at March 31, 2013, the Company had interest rate swaps that fix LIBOR on both the five and seven-year term loans under the Term Loan Facility through their respective maturity dates. The interest rate swap agreements fix thirty day LIBOR over the terms of the five and seven-year term loans at 1.80% and 2.47%, respectively. As of March 31, 2013, borrowings under the Credit Facility and Term Loan Facility had an effective weighted average interest rate of 3.18%.

The Term Loan Facility and the term loans under the Credit Facility were fully drawn at March 31, 2013 and no further borrowings may be made under that facility and those term loans. The Company s ability to borrow under the Credit Facility is subject to ongoing compliance with certain financial covenants which include:

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

- Minimum fixed charge coverage ratio of 1.50:1.00; and

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

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

The Company is currently in compliance with all of its financial covenants and anticipates being in compliance with all of its financial covenants through the terms of the Credit Facility and Term Loan Facility.

Table of Contents

7. MORTGAGE LOANS AND NOTES PAYABLE

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

Mortgage Loans and Notes Payable	Carrying Value as of: March 31, 2013	Carrying Value as of: December 31, 2012	Effective Interest Rate	Maturity Date
	(dollars in thousands)			
YSI 7	$ 2,943	$ 2,962	6.50%	Jun-13
YSI 8	1,682	1,692	6.50%	Jun-13
YSI 9	1,850	1,862	6.50%	Jun-13
YSI 17	3,809	3,846	6.32%	Jul-13
YSI 27	456	461	5.59%	Nov-13
YSI 30	6,690	6,765	5.59%	Nov-13
USIFB	6,594	7,221	3.56%	Dec-13
YSI 11	2,256	2,276	5.87%	Jan-14
YSI 5	2,975	3,001	5.25%	Jan-14
YSI 28	1,447	1,460	5.59%	Mar-14
YSI 10	3,906	3,928	5.87%	Jan-15
YSI 15	1,771	1,784	6.41%	Jan-15
YSI 52	4,678	4,721	5.63%	Jan-15
YSI 58	8,899	8,974	2.97%	Jan-15
YSI 29	13,007	13,060	3.69%	Aug-15
YSI 20	57,998	58,524	5.97%	Nov-15
YSI 59	9,556	9,603	4.82%	Mar-16
YSI 60	3,711	3,725	5.04%	Aug-16
YSI 51	7,297	7,325	5.15%	Sep-16
YSI 35	4,348	4,373	6.90%	Jul-19(a)
YSI 33	10,871	10,930	6.42%	Jul-19
YSI 26	9,062	9,102	4.56%	Nov-20
YSI 57	3,181	3,195	4.61%	Nov-20
YSI 55	24,411	24,502	4.85%	Jun-21
YSI 24	28,983	29,141	4.64%	Jun-21
Unamortized fair value adjustment	4,079	4,326		
Total mortgage loans and notes payable	$ 226,460	$ 228,759		

(a) This borrowing has a fixed interest rate for the first five-years of the term, and the rate then resets and remains constant over the final five-years of the loan term.

Table of Contents

The following table represents the future principal payment requirements on the outstanding mortgage loans and notes payable at March 31, 2013 (in thousands):

2013	$	27,837
2014		11,633
2015		86,978
2016		21,342
2017		1,915
2018 and thereafter		72,676
Total mortgage payments		222,381
Plus: Unamortized fair value adjustment		4,079
Total mortgage indebtedness	$	226,460

The Company currently intends to fund its remaining 2013 principal payment requirements from cash provided by operating activities, new debt originations, and/or additional borrowings under its unsecured Credit Facility ($269.8 million available as of March 31, 2013).

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the changes in accumulated other comprehensive loss by component for the three months ended March 31, 2013 (dollars in thousands):

		Unrealized loss on interest rate swap		**Unrealized loss on foreign currency translation**		**Total**
Beginning balance	$	(18,973)	$	(823)	$	(19,796)
Other comprehensive (loss) gain before reclassifications		(303)		(243)		(546)
Amounts reclassified from accumulated other comprehensive loss		1,503(a)		-		1,503
Net current-period other comprehensive income (loss)		1,200		(243)		957
Ending balance	$	(17,773)	$	(1,066)	$	(18,839)

(a) See note 9 for additional information about the effects of the amounts reclassified.

9. RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

The Company s use of derivative instruments is limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposures and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company s operating and financial structure, as well as to hedge specific transactions. The counterparties to these arrangements are major financial institutions with which the Company and its subsidiaries may also have other financial relationships. The Company is potentially exposed to credit loss in the event of non-performance by these counterparties.

Table of Contents

However, because of the high credit ratings of the counterparties, the Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due. The Company does not hedge credit or property value market risks.

The Company has entered into interest rate swap agreements that qualify and are designated as cash flow hedges designed to reduce the impact of interest rate changes on its variable rate debt. Therefore, the interest rate swaps are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders equity as Accumulated Other Comprehensive Loss. These deferred gains and losses are amortized into interest expense during the period or periods in which the related interest payments affect earnings. However, to the extent that the interest rate swaps are not perfectly effective in offsetting the change in value of the interest payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. The Company formally assesses, both at inception of a hedge and on an on-going basis, whether each derivative is highly-effective in offsetting changes in cash flows of the hedged item. If management determines that a derivative is highly-effective as a hedge, then the Company accounts for the derivative using hedge accounting, pursuant to which gains or losses inherent in the derivative do not impact the Company s results of operations. If management determines that a derivative is not highly-effective as a hedge or if a derivative ceases to be a highly-effective hedge, the Company will discontinue hedge accounting prospectively and will reflect in its statement of operations realized and unrealized gains and losses in respect of the derivative.

The following table summarizes the terms and fair values of the Company s derivative financial instruments at March 31, 2013 and December 31, 2012, respectively (dollars in thousands):

							Fair Value	
Hedge Product	Hedge Type (a)		Notional Amount	Strike	Effective Date	Maturity	March 31, 2013	December 31, 2012
Swap	Cash flow	$	40,000	1.8025%	6/20/2011	6/20/2016	$ (1,757)	$ (1,873)
Swap	Cash flow	$	40,000	1.8025%	6/20/2011	6/20/2016	(1,758)	(1,875)
Swap	Cash flow	$	20,000	1.8025%	6/20/2011	6/20/2016	(878)	(937)
Swap	Cash flow	$	75,000	1.3360%	12/30/2011	3/31/2017	(2,217)	(2,378)
Swap	Cash flow	$	50,000	1.3360%	12/30/2011	3/31/2017	(1,474)	(1,583)
Swap	Cash flow	$	50,000	1.3360%	12/30/2011	3/31/2017	(1,475)	(1,583)
Swap	Cash flow	$	25,000	1.3375%	12/30/2011	3/31/2017	(743)	(799)
Swap	Cash flow	$	40,000	2.4590%	6/20/2011	6/20/2018	(3,238)	(3,433)
Swap	Cash flow	$	40,000	2.4725%	6/20/2011	6/20/2018	(3,269)	(3,470)
Swap	Cash flow	$	20,000	2.4750%	6/20/2011	6/20/2018	(1,634)	(1,734)
		$	400,000				$ (18,443)	$ (19,665)

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

The Company measures its derivative instruments at fair