

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2000

Commission file number: 1-13820

SOVRAN SELF STORAGE, INC.

(Exact name of Registrant as specified in its charter)

Maryland

16-1194043

(State or other jurisdiction of
incorporation or organization)

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

6467 Main Street
Buffalo, NY 14221

(Address of principal executive offices) (Zip code)

(716) 633-1850

(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

As of August 10, 2000 there were outstanding 11,985,432 shares of the registrants Common Stock, \$.01 par value.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOVRAN SELF STORAGE, INC.
CONSOLIDATED BALANCE SHEETS

June 30,
2000 December 31,

(dollars in thousands, except share data) (unaudited) 1999

ASSETS

Investment in storage facilities:

| | | |
|----------------------------------------|-------------------|-------------------|
| Land | \$ 113,887 | \$ 111,833 |
| Building and equipment | 456,903 | 444,640 |
| | <u>570,790</u> | <u>556,473</u> |
| Less: accumulated depreciation | (39,973) | (33,453) |
| Investments in storage facilities, net | 530,817 | 523,020 |
| Cash and cash equivalents | 1,903 | 1,032 |
| Accounts receivable | 2,937 | 1,796 |
| Prepaid expenses and other assets | 3,881 | 3,871 |
| Total Assets | <u>\$ 539,538</u> | <u>\$ 529,719</u> |

LIABILITIES

| | | |
|------------------------------------------|----------------|----------------|
| Line of credit | \$ 142,500 | \$ 123,000 |
| Term note | 75,000 | 75,000 |
| Accounts payable and accrued liabilities | 4,968 | 4,696 |
| Deferred revenue | 3,639 | 3,322 |
| Accrued dividends | 6,835 | 7,010 |
| Mortgage payable | 5,227 | 5,253 |
| Total Liabilities | <u>238,169</u> | <u>218,281</u> |

| | | |
|-------------------|--------|--------|
| Minority interest | 23,439 | 23,582 |
|-------------------|--------|--------|

SHAREHOLDERS' EQUITY

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Series A Junior Participating Cumulative Preferred Stock, \$.01 par value, 250,000 shares authorized and no shares issued and outstanding | - | - |
| 9.85% Series B Cumulative Preferred Stock, \$.01 par value, 1,700,000 shares authorized, 1,200,000 shares issued and outstanding, \$30,000 liquidation value | 28,585 | 28,585 |
| Common stock \$.01 par value, 100,000,000 shares authorized, 11,985,432 shares outstanding (12,299,163 at December 31, 1999) | 127 | 127 |
| Additional paid-in capital | 282,460 | 281,284 |
| Unearned restricted stock | (640) | (339) |
| Dividends in excess of net income | (16,787) | (13,357) |
| Treasury stock at cost, 751,700 shares (376,200 shares at December 31, 1999) | (15,815) | (8,444) |
| Total Shareholders' Equity | <u>277,930</u> | <u>287,856</u> |

| | | |
|--------------------------------------------|-------------------|-------------------|
| Total Liabilities and Shareholders' Equity | <u>\$ 539,538</u> | <u>\$ 529,719</u> |
|--------------------------------------------|-------------------|-------------------|

See notes to financial statements.

SOVRAN SELF STORAGE, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

| | | |
|------------------------------------------|---------------|---------------|
| | April 1, 2000 | April 1, 1999 |
| (dollars in thousands except share data) | to | to |
| | June 30, 2000 | June 30, 1999 |

REVENUES:

| | | |
|---------------------------|---------------|---------------|
| Rental income | \$ 21,927 | \$ 20,331 |
| Interest and other income | 362 | 274 |
| Total revenues | <u>22,289</u> | <u>20,605</u> |

EXPENSES:

| | | |
|-------------------------------------|---------------|---------------|
| Property operations and maintenance | 4,595 | 4,035 |
| Real estate taxes | 2,000 | 1,719 |
| General and administrative | 1,482 | 1,387 |
| Interest | 4,278 | 3,631 |
| Depreciation and amortization | 3,526 | 3,238 |
| Total expenses | <u>15,881</u> | <u>14,010</u> |

| | | |
|---------------------------------|-------|-------|
| Income before minority interest | 6,408 | 6,595 |
| Minority interest | (424) | (422) |

| | | |
|---------------------------------------------|-----------------|-----------------|
| Net Income | 5,984 | 6,173 |
| Series B preferred stock dividend | (739) | - |
| Net income available to common shareholders | <u>\$ 5,245</u> | <u>\$ 6,173</u> |

PER COMMON SHARE:

| | | |
|--------------------------------------------------------------|----------------|----------------|
| Earnings per common share - basic | <u>\$ 0.44</u> | <u>\$ 0.50</u> |
| Earnings per common share - diluted | <u>\$ 0.44</u> | <u>\$ 0.50</u> |
| Common shares used in basic earnings per share calculation | 12,026,709 | 12,420,258 |
| Common shares used in diluted earnings per share calculation | 12,028,281 | 12,435,123 |
| Dividends declared per common share | <u>\$ 0.57</u> | <u>\$ 0.56</u> |

See notes to financial statements.

SOVRAN SELF STORAGE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(dollars in thousands except share data)

| | | |
|--|----------------------------------------|----------------------------------------|
| | January 1, 2000 to June 30, 2000 | January 1, 1999 to June 30, 1999 |
|--|----------------------------------------|----------------------------------------|

REVENUES:

| | | |
|---------------------------|---------------|---------------|
| Rental income | \$ 43,461 | \$ 39,573 |
| Interest and other income | 626 | 484 |
| Total revenues | <u>44,087</u> | <u>40,057</u> |

EXPENSES:

| | | |
|-------------------------------------|---------------|---------------|
| Property operations and maintenance | 9,332 | 8,076 |
| Real estate taxes | 4,015 | 3,295 |
| General and administrative | 2,939 | 2,515 |
| Interest | 8,192 | 6,972 |
| Depreciation and amortization | 6,982 | 6,341 |
| Total expenses | <u>31,460</u> | <u>27,199</u> |

| | | |
|---------------------------------|--------|--------|
| Income before minority interest | 12,627 | 12,858 |
| Minority interest | (829) | (830) |

| | | |
|-----------------------------------|---------|--------|
| Net Income | 11,798 | 12,028 |
| Series B preferred stock dividend | (1,478) | - |

| | | |
|---------------------------------------------|------------------|------------------|
| Net income available to common shareholders | <u>\$ 10,320</u> | <u>\$ 12,028</u> |
|---------------------------------------------|------------------|------------------|

PER COMMON SHARE:

| | | |
|-------------------------------------|----------------|----------------|
| Earnings per common share - basic | <u>\$ 0.85</u> | <u>\$ 0.97</u> |
| Earnings per common share - diluted | \$ 0.85 | \$ 0.97 |

| | | |
|--------------------------------------------------------------|------------|------------|
| Common shares used in basic earnings per share calculation | 12,130,881 | 12,389,724 |
| Common shares used in diluted earnings per share calculation | 12,131,801 | 12,404,522 |
| Dividends declared per common share | \$ 1.14 | \$ 1.12 |

See notes to financial statements.

SOVRAN SELF STORAGE, INC.

STATEMENTS OF CASH FLOW
(unaudited)

| (dollars in thousands) | January 1, 2000 to June 30, 2000 | January 1, 1999 to June 30, 1999 |
|--------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------|
| OPERATING ACTIVITIES | | |
| Net income | \$ 11,798 | \$ 12,028 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,982 | 6,341 |
| Minority interest | 829 | 830 |
| Restricted stock earned | 47 | 50 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,141) | (677) |
| Prepaid expenses and other assets | (426) | 525 |
| Accounts payable and other liabilities | 234 | 1,440 |
| Deferred revenue | 248 | 223 |
| Net cash provided by operating activities | 18,571 | 20,760 |
| INVESTING ACTIVITIES | | |
| Additions to storage facilities | (14,256) | (40,955) |
| Additions to other assets | - | (22) |
| Net cash used in investing activities | (14,256) | (40,977) |
| FINANCING ACTIVITIES | | |
| Net proceeds from issuance of common stock through Dividend Reinvestment and Stock Purchase Plan | 828 | 2,935 |
| Proceeds from line of credit draw down | 19,500 | 32,500 |
| Dividends paid-common stock | (13,925) | (13,898) |
| Dividends paid-preferred stock | (1,478) | - |
| Purchase of treasury stock | (7,371) | - |
| Minority interest distributions | (972) | (966) |
| Redemption of operating partnership units | - | (261) |
| Mortgage principal payments | (26) | (2) |
| Net cash (used in) provided by financing activities | (3,444) | 20,308 |
| Net increase in cash | 871 | 91 |
| Cash at beginning of period | 1,032 | 2,984 |
| Cash at end of period | \$ 1,903 | \$ 3,075 |
| Supplemental cash flow information | | |
| Cash paid for interest | \$ 8,249 | \$ 6,669 |

SOVRAN SELF STORAGE, INC.

STATEMENTS OF CASH FLOW

Supplemental cash-flow information for the six-months ended June 30, 2000
(dollars in thousands)

| | |
|-----------------------------------------------------------------------------------|-------|
| Fair value of net liabilities assumed on the acquisition of storage facilities | \$ 84 |
|-----------------------------------------------------------------------------------|-------|

Dividends declared but unpaid were \$6,835 at June 30, 2000 and \$7,010 at
December 31, 1999.

See notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Sovran
Self Storage, Inc. (the Company) have been prepared in accordance

with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2000 are not necessarily indicative of the results that may be expected for the year ended December 31, 2000.

2. ORGANIZATION

The Company, a self-administered and self-managed real estate investment trust (a REIT), was formed on April 19, 1995 to own and operate self-storage facilities throughout the United States. On June 26, 1995, the Company commenced operations effective with the completion of its initial public offering of 5,890,000 shares (the Offering). Since its formation the Company has purchased a total of 153, (Four in 2000, eighteen in 1999, fifty in 1998, forty four in 1997, twenty-nine in 1996 and eight in 1995) self storage properties from unaffiliated third parties, increasing the total number of self-storage properties owned at June 30, 2000 to 226 properties in 21 states.

All of the Company's assets are owned by, and all its operations are conducted through, Sovran Acquisition Limited Partnership (the Operating Partnership). Sovran Holdings, Inc., a wholly owned subsidiary of the Company (the Subsidiary), is the sole general partner; and the Company is a limited partner of the Operating Partnership, and thereby controls the operations of the Operating Partnership holding a 93.36% ownership interest therein as of June 30, 2000. The remaining ownership interests in the Operating Partnership are held by certain former owners of assets acquired by the Operating Partnership subsequent to its formation. The consolidated financial statements of the Company include the accounts of the Company, the Partnership, and the wholly owned Subsidiary. All intercompany transactions and balances have been eliminated.

3. INVESTMENT IN STORAGE FACILITIES

The following summarizes activity in storage facilities during the period ended June 30, 2000.

(dollars in thousands)

| | | | |
|--------------------------------------|----|---------|-------|
| Cost: | | | |
| Beginning balance | \$ | 556,473 | |
| Property acquisitions | | 9,690 | |
| Improvements and equipment additions | | | 4,682 |
| Dispositions | | (55) | |

| | | |
|----------------|----|---------|
| Ending balance | \$ | 570,790 |
|----------------|----|---------|

| | | |
|-----------------------------|----|--------|
| Accumulated Depreciation: | | |
| Beginning balance | \$ | 33,453 |
| Additions during the period | | 6,543 |

Dispositions (23)

Ending balance \$ 39,973

4. UNSECURED LINE OF CREDIT AND TERM NOTE

The Company has a \$150 million unsecured credit facility that matures February 2001 and provides for funds at LIBOR plus 1.25%. At June 30, 2000, the outstanding balance on the credit facility was \$142.5 million.

The Company has a \$75 million unsecured term note that matures on December 22, 2000 and bears interest at LIBOR plus 1.50%.

The Company also has an interest rate cap transaction through April 3, 2001. Under the agreement, which is based on a notional amount of \$40 million, if the LIBOR rate exceeds 9%, the bank pays the Company the rate in excess of 9% multiplied by \$40 million for the outstanding period.

The net carrying amount of the Company's debt instruments approximates fair value.

5. COMMITMENTS AND CONTINGENCIES

The Company's current practice is to conduct environmental investigations in connection with property acquisitions. At this time, the Company is not aware of any environmental contamination of any of its facilities which individually or in the aggregate would be material to the Company's overall business, financial condition, or results of operations.

As of June 30, 2000, the Company had entered into a contract for the purchase of one facility with an expected cost of \$1.3 million.

6. PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma Condensed Statement of Operations is presented as if the 4 storage facilities purchased during the six months ended June 30, 2000, had occurred at January 1, 2000. Such unaudited pro forma information is based upon the historical combined statements of operations of the Company. It should be read in conjunction with the financial statements of the Company and notes thereto included elsewhere herein. In management's opinion, all adjustments necessary to reflect the effects of these transactions have been made. This unaudited pro forma statement does not purport to represent what the actual results of operations of the Company would have been assuming such transactions had been completed as set forth above nor does it purport to represent the results of operations for future periods.

(in thousands, except per share data)

| | Six Months Ended |
|----------------|------------------|
| | June 30, |
| | 2000 |
| REVENUES: | |
| Rental income | \$ 43,747 |
| Other income | 640 |
| Total revenues | 44,387 |

| | |
|---------------------------------------------------------------|------------------|
| EXPENSES: | |
| Property operations & maintenance | 9,418 |
| Real estate taxes | 4,038 |
| General and administrative | 2,941 |
| Interest | 8,294 |
| Depreciation and amortization | 7,106 |
| | |
| Total expenses | <u>31,797</u> |
| | |
| Income before minority interest | 12,590 |
| Minority interest | (827) |
| | |
| Net income | <u>11,763</u> |
| Series B preferred stock dividend | (1,478) |
| | |
| Net income available to common shareholders | <u>\$ 10,285</u> |
| | |
| Earnings per common share - basic | <u>\$.86</u> |
| | |
| Earnings per common share - diluted | <u>\$.86</u> |
| | |
| Common shares used in basic earnings per share calculation | 11,985,432 |

7. LEGAL PROCEEDINGS

A former business associate (Plaintiff) of certain officers and directors of the Company, including Robert J. Attea, Kenneth F. Myszka, David L. Rogers and Charles E. Lannon, commenced a lawsuit against the Company on June 13, 1995 in the United States District Court for the Northern District of Ohio. The Plaintiff subsequently amended the complaint in the lawsuit alleging breach of fiduciary duty, breach of contract, breach of general partnership/joint venture arrangement, breach of duty of good faith, fraud and deceit, and other causes of action including declaratory judgment as to the Plaintiff's continuing interest in the Company. The Plaintiff sought money damages in excess of \$15 million, as well as punitive damages and declaratory and injunctive relief (including the imposition of a constructive trust on assets of the Company in which the Plaintiff claimed to have a continuing interest) and an accounting. The amended complaint also added Messrs. Attea, Myszka, Rogers and Lannon as additional defendants. In April 2000, following trial, the jury rendered a verdict adverse to the Company with respect to Plaintiff's claims for breach of fiduciary duty, breach of contract and breach of general partnership/joint venture arrangement and found total compensatory damages in the amount of \$6,462,068. Messrs. Attea, Myszka, Rogers and Lannon have agreed to indemnify the Company for costs and any loss arising from the lawsuit and their obligation to do so is secured by an escrow arrangement covering shares of the Company's common stock owned by them having a current value substantially in excess of the amount of damages found by the jury. The Company has filed a post-trial motion for judgment as a matter of law and a motion for a new trial. In the event that the relief sought by these motions is not granted, the Company intends to appeal. In view of the indemnification agreement and escrow arrangement, the Company does not believe that the lawsuit will have a material adverse effect upon the Company regardless of the final disposition of the lawsuit.

8. EARNINGS PER SHARE

The Company reports earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." In computing earnings per share, the Company excludes preferred stock dividends from net income to arrive at net income available to common shareholders. The following table sets forth the computation of basic and diluted earnings per common share:

| | Six Months Ended June 30, | Six Months Ended June 30, |
|---------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| (in thousands except per share data) | 2000 | 1999 |
| Numerator: | | |
| Net income available to common shareholders | \$ 10,320 | \$ 12,028 |
| Denominator: | | |
| Denominator for basic earnings per share - weighted average shares | 12,131 | 12,390 |
| Effect of Diluted Securities: | | |
| Stock options | 1 | 15 |
| Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion | 12,132 | 12,405 |
| Basic earnings per common share | \$.85 | \$.97 |
| Diluted earnings per common share | \$.85 | \$.97 |

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

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the financial statements and notes thereto included elsewhere in this report.

The Company operates as a Real Estate Investment Trust ("REIT") and owns and operates a portfolio of 226 self-storage facilities, providing storage space for business and personal use to customers in 21 states. The Company's investment objective is to increase cash flow and enhance shareholder value by aggressively managing its portfolio, to expand and enhance the facilities in that portfolio and to selectively acquire new properties in geographic areas that will either complement or efficiently grow the portfolio.

When used in this discussion and elsewhere in this document, the words "intends," "believes," "anticipates," and similar expressions are intended to identify "forward-looking statements" within the meaning of that term in Section 27A of the Securities Act of 1933, and in Section 21F of Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the effect of competition from new self-storage facilities, which would cause rents and occupancy rates to

decline; the Company's ability to evaluate, finance and integrate

acquired businesses into the Company's existing business and operations; the Company's existing indebtedness may mature in an unfavorable credit environment, preventing refinancing or forcing refinancing of the indebtedness on terms that are not as favorable as the existing terms; the Company's ability to effectively compete in the industries in which it does business; the Company's ability to successfully implement its Uncle Bob's Flex-a-Space strategy; the Company's cash flow may be insufficient to meet required payments of principal and interest; and tax law changes which may change the taxability of future income.

LIQUIDITY AND CAPITAL RESOURCES

The Company's unsecured credit facility provides availability up to \$150 million, of which \$142.5 million was drawn at June 30, 2000. The facility matures February 2001 and bears interest at LIBOR plus 1.25%.

In addition to the credit facility, the Company has an unsecured term note due December 2000, that bears interest at LIBOR plus 1.50%. The credit facility and term note currently have investment grade ratings from Standard and Poors (BBB-), Moodys (Baa3), and Duff and Phelps (BBB-).

The Company expects to fund its maturing obligations and its future growth through a renewal of its line of credit, issuance of 5-10 year notes of either a secured or unsecured nature, issuance of preferred stock, and private placement solicitation of public pension funds.

In July 1999, the Company issued 1,200,000 shares of 9.85% Series B Cumulative Redeemable Preferred Stock. The net proceeds of \$28.6 million were used to repay a portion of the credit facility. The Series B Preferred Stock is currently rated by Standard and Poors (BB+), Moodys (Ba2) and Duff and Phelps (BB+).

The Company believes that its internally generated cash flows and borrowing capacity under the credit facility will be sufficient to fund ongoing operations, capital improvements, dividends, and acquisitions for the year 2000.

COMMON STOCK REPURCHASE PROGRAM

The Company continued its common stock repurchase program authorized by the Board of Directors by acquiring 169,900 shares for \$3.4 million during the second quarter of 2000. At June 30, 2000, the total shares repurchased by the Company were 751,700 at a total cost of \$15.8 million.

UMBRELLA PARTNERSHIP REIT

The Company was formed as an Umbrella Partnership Real Estate Trust ("UPREIT") and, as such, has the ability to issue operating partnership ("OP") units in exchange for properties sold by independent owners. By utilizing such OP units as currency in facility acquisitions, the Company may partially defer the seller's income-tax liability and obtain more favorable pricing or terms. As of June 30, 2000, 853,037 units have been issued in exchange for property at the request of the sellers.

ACQUISITION OF PROPERTIES

The Company's external growth strategy is to increase the

number of facilities it owns by acquiring suitable facilities in markets in which it already has an operating presence or to expand into new markets by acquiring several facilities at once in those new markets. In the three months ended June 30, 2000, the Company acquired one property, increasing its existing presence in Florida. The acquisition added 42,000 square feet of space and 498 rental units to the Company's portfolio.

FUTURE ACQUISITION AND DEVELOPMENT PLANS

The Company has a contract on one property in Alabama with an expected closing in September 2000. The Company also intends to improve certain of its existing facilities by building additional storage buildings on presently vacant land and by installing climate control and enhanced security systems at selected sites.

REIT QUALIFICATION AND DISTRIBUTION REQUIREMENTS

As a REIT, the Company is not required to pay federal income tax on income that it distributes to its shareholders, provided that the amount distributed is equal to at least 95% of taxable income. These distributions must be made in the year to which they relate or in the following year if declared before the Company files its federal income-tax return and if it is paid before the first regular dividend of the following year.

As a REIT, the Company must derive at least 95% of its total gross income from income related to real property, interest and dividends. In the six months ended June 30, 2000, the Company's percentage of revenue from such sources exceeded 98%, thereby passing the 95% test, and no special measures are expected to be required to enable the Company to maintain its REIT designation.

RESULTS OF OPERATIONS

The following discussion is based on the financial statements of the Company as of June 30, 2000 and June 30, 1999.

FOR THE PERIOD JANUARY 1, 2000 THROUGH JUNE 30, 2000 (DOLLARS IN THOUSANDS)

The Company reported revenues of \$44,087 during the period and incurred \$13,347 in operating expenses, resulting in net operating income of \$30,740, or 70%. General and administrative expenses of \$2,939, interest expense of \$8,192 and depreciation and amortization expenses of \$6,982 resulted in income of \$12,627 before minority interest. Net income amounted to \$11,798.

THREE MONTHS ENDED JUNE 30, 2000, COMPARED TO THREE MONTHS ENDED JUNE 30, 1999 (DOLLARS IN THOUSANDS)

The following discussion compares the activities of the Company for the three months ended June 30, 2000 with the activities of the Company for the three months ended June 30, 1999.

Total revenues increased from \$20,605 for the three months ended June 30, 1999 to \$22,289 for the three months ended June 30, 2000, an increase of \$1,684 or 8%. Of this, \$853 resulted from the acquisition of 16 properties during the period April 1, 1999 through June 30, 2000 and \$831 was realized as a result of increased rental rates at the 210 properties owned by the Company at April 1, 1999. Overall, same-store revenues grew 4% for the three-month period ended June 30, 2000 as compared to the same period in 1999.

Property operating and real estate tax expense increased \$841 or 15% during the period. \$416 was a result of absorbing additional expenses from operating the newly acquired properties,

\$250 was a result of marketing expenses relating to the Company's Uncle Bob's Flex-a-Space initiative, and \$175 related to the operations of its sites operated more than one year.

General and administrative expenses, which include losses of \$17 realized as the result of replacement of equipment, increased \$95 principally as a result of increased administrative costs associated with managing the additional properties.

Interest expense increased \$647 due to an increase in interest rates.

Income before minority interest decreased from \$6,595 to \$6,408, a decrease of \$187 or less than 3%.

FUNDS FROM OPERATIONS

The Company believes that Funds From Operations ("FFO") is helpful to investors as a measure of the performance of an equity REIT because, when considered in conjunction with cash flows from operating activities, financing activities, and investing activities, it provides investors with an understanding of the ability of the Company to incur and service debt and to make capital expenditures. FFO is defined as income before minority interest and extraordinary item, computed in accordance with GAAP, plus depreciation of real estate assets and amortization of

intangible assets exclusive of deferred financing fees, and excluding gains (losses) from debt restructuring and sales of property. FFO should not be considered a substitute for net income or cash flows, nor should it be considered an alternative to operating performance or liquidity. The following table sets forth the calculation of FFO:

| | Six months ended June 30, 2000 | Six months ended June 30, 1999 |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| (in thousands) | | |
| Net income | \$ 11,798 | \$ 12,028 |
| Minority interest in income | 829 | 830 |
| Depreciation of real estate and amortization of intangible assets exclusive of deferred financing fees | 6,623 | 5,982 |
| Funds from operations allocable to minority interest | (1,264) | (1,216) |
| FFO | 17,986 | 17,624 |
| Preferred dividends | (1,478) | - |
| FFO available to common shareholders | \$ 16,508 | \$ 17,624 |

INFLATION

The Company does not believe that inflation has had or will have a direct adverse effect on its operations. Substantially all of the leases at the facilities allow for monthly rent increases, which provide the Company with the opportunity to achieve increases in rental income as each lease matures.

SEASONALITY

The Company's revenues typically have been higher in the third and fourth quarters, primarily because the Company increases its rental rates on most of its storage units at the beginning of May and, to a lesser extent, because self-storage facilities tend to experience greater occupancy during the late spring, summer and early fall months due to the greater incidence of residential moves during these periods. However, the Company believes that its tenant mix, diverse geographical locations, rental structure and expense structure provide adequate protection against undue fluctuations in cash flows and net revenues during off-peak seasons. Thus, the Company does not expect seasonality to affect materially distributions to shareholders.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company manages its exposure to interest rate changes by entering into interest rate swap agreements. There have been no material changes to the Company's exposure to interest rate risk since December 31, 1999.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A former business associate (Plaintiff) of certain officers and directors of the Company, including Robert J. Attea, Kenneth F. Myszka, David L. Rogers and Charles E. Lannon, commenced a lawsuit against the Company on June 13, 1995 in the United States District Court for the Northern District of Ohio. The Plaintiff subsequently amended the complaint in the lawsuit alleging breach of fiduciary duty, breach of contract, breach of general partnership/joint venture arrangement, breach of duty of good faith, fraud and deceit, and other causes of action including declaratory judgment as to the Plaintiff's continuing interest in the Company. The Plaintiff sought money damages in excess of \$15 million, as well as punitive damages and declaratory and injunctive relief (including the imposition of a constructive trust on assets of the Company in which the Plaintiff claimed to have a continuing interest) and an accounting. The amended complaint also added Messrs. Attea, Myszka, Rogers and Lannon as additional defendants. In April 2000, following trial, the jury rendered a verdict adverse to the Company with respect to Plaintiff's claims for breach of fiduciary duty, breach of contract and breach of general partnership/joint venture arrangement and found total compensatory damages in the amount of \$6,462,068. Messrs. Attea, Myszka, Rogers and Lannon have agreed to indemnify the Company for costs and any loss arising from the lawsuit and their obligation to do so is secured by an escrow arrangement covering shares of the Company's common stock owned by them having a current value substantially in excess of the amount of damages found by the jury. The Company has filed a post-trial motion for judgment as a matter of law and a motion for a new trial. In the event that the relief sought by these motions is not granted, the Company intends to appeal. In view of the indemnification agreement and escrow arrangement, the Company does not believe that the lawsuit will have a material adverse effect upon the Company regardless of the final disposition of the lawsuit.

ITEM 2. CHANGES IN SECURITIES

No disclosure required.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No disclosure required.

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

a.) The Annual Meeting of Shareholders was held on Wednesday, May 24, 2000.

| b.) Directors | Votes For | Votes Withheld |
|-------------------|------------|----------------|
| Robert J. Attea | 10,471,275 | 108,945 |
| Kenneth F. Myszka | 10,471,275 | 108,945 |
| John E. Burns | 10,470,375 | 109,845 |
| Michael A. Elia | 10,471,275 | 108,945 |
| Anthony P. Gammie | 10,465,025 | 115,195 |
| Charles E. Lannon | 10,471,275 | 108,945 |

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<ARTICLE> 5

| <S> | <C> |
|------------------------------|-------------|
| <PERIOD-TYPE> | 6-MOS |
| <FISCAL-YEAR-END> | DEC-31-2000 |
| <PERIOD-END> | JUN-30-2000 |
| <CASH> | 1,903 |
| <SECURITIES> | 0 |
| <RECEIVABLES> | 2,937 |
| <ALLOWANCES> | 0 |
| <INVENTORY> | 0 |
| <CURRENT-ASSETS> | 8,721 |
| <PP&E> | 570,790 |
| <DEPRECIATION> | 39,973 |
| <TOTAL-ASSETS> | 539,538 |
| <CURRENT-LIABILITIES> | 238,169 |
| <BONDS> | 0 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 28,585 |
| <COMMON> | 127 |
| <OTHER-SE> | 249,218 |
| <TOTAL-LIABILITY-AND-EQUITY> | 539,538 |
| <SALES> | 0 |
| <TOTAL-REVENUES> | 44,087 |
| <CGS> | 0 |
| <TOTAL-COSTS> | 13,347 |
| <OTHER-EXPENSES> | 10,750 |
| <LOSS-PROVISION> | 0 |
| <INTEREST-EXPENSE> | 8,192 |
| <INCOME-PRETAX> | 11,798 |
| <INCOME-TAX> | 0 |
| <INCOME-CONTINUING> | 11,798 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 11,798 |
| <EPS-BASIC> | 0.85 |
| <EPS-DILUTED> | 0.85 |

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