**FORM 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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

For the quarterly period ended June 30, 2002

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 X No ____

As of August 9, 2002 there were outstanding 12,949,688 shares of the registrant's Common Stock, $.01 par value.

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

SOVRAN SELF STORAGE, INC.
CONSOLIDATED BALANCE SHEETS

| (dollars in thousands, except share data) | June 30, 2002 (unaudited) | December 31, 2001 |
|---|---|---|
| Assets | | |
| Investment in storage facilities: | | |
| Land | $ 127,607 | $ 117,069 |
| Building and equipment | 544,674 | 494,220 |
| | 672,281 | 611,289 |
| Less: accumulated depreciation | (66,787) | (59,091) |

| | | |
|---|---|---|
| Investment in storage facilities, net | 605,494 | 552,198 |
| Cash and cash equivalents | 6,278 | 1,883 |
| Accounts receivable | 1,169 | 1,064 |
| Receivable from related parties | 97 | 122 |
| Notes receivable from joint ventures | 817 | 679 |
| Investment in joint ventures | 4,134 | 3,659 |
| Prepaid expenses | 2,749 | 2,505 |
| Other assets | 5,288 | 5,728 |
| Total Assets | $ 626,026 | $ 567,838 |
| Liabilities | | |
| Line of credit | $135,000 | $134,000 |
| Term note | 105,000 | 105,000 |
| Accounts payable and accrued liabilities | 10,117 | 4,359 |
| Deferred revenue | 3,645 | 3,157 |
| Accrued dividends | 7,583 | 7,293 |
| Mortgage payable | 50,017 | 2,190 |
| Total Liabilities | 311,362 | 255,999 |
| Minority interest - Operating Partnership | 14,512 | 17,590 |
| Minority interest - consolidated joint venture | 16,850 | 17,085 |
| 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, 12,844,934 shares outstanding (12,354,961 at December 31, 2001) | 137 | 132 |
| Additional paid-in capital | 306,772 | 293,835 |
| Unearned restricted stock | (1,810) | (1,978) |
| Dividends in excess of net income | (29,432) | (25,746) |
| Accumulated other comprehensive income | (2,913) | 373 |
| Treasury stock at cost, 839,453 shares | (18,037) | (18,037) |
| Total Shareholders' Equity | 283,302 | 277,164 |
| Total Liabilities and Shareholders' Equity | $626,026 | $567,838 |

See notes to financial statements.

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

| (dollars in thousands, except share data) | April 1, 2002 to June 30, 2002 | April 1, 2001 to June 30, 2001 |
|---|---|---|
| **Revenues:** | | |
| Rental income | $ 24,699 | $ 22,131 |
| Interest and other income | 572 | 544 |
| Total revenues | 25,271 | 22,675 |
| **Expenses:** | | |
| Property operations and maintenance | 5,592 | 4,856 |
| Real estate taxes | 2,376 | 2,119 |
| General and administrative | 1,974 | 1,703 |
| Interest | 3,895 | 3,523 |
| Depreciation and amortization | 4,202 | 3,723 |
| Equity in losses (income) of joint ventures | 51 | (103) |
| Total expenses | 18,090 | 15,821 |
| Income before minority interest | 7,181 | 6,854 |
| Minority interest - Operating Partnership | (311) | (418) |

| | | |
|---|---|---|
| Minority interest - consolidated joint venture | (225) | - |
| Net Income | 6,645 | 6,436 |
| Series B preferred stock dividend | (739) | (739) |
| Net income available to common shareholders | $ 5,906 | $ 5,697 |
| **Per common share:** | | |
| Earnings per common share - basic | $ 0.47 | $ 0.47 |
| Earnings per common share - diluted | $ 0.46 | $ 0.46 |
| Common shares used in basic earnings per share calculation | 12,603,818 | 12,194,833 |
| Common shares used in diluted earnings per share calculation | 12,807,202 | 12,273,337 |
| Dividends declared per common share | $ 0.59 | $ 0.58 |

See notes to financial statements.

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

| (dollars in thousands, except share data) | January 1, 2002 to June 30, 2002 | January 1, 2001 to June 30, 2001 |
|---|---|---|
| **Revenues:** | | |
| Rental income | $ 48,482 | $ 43,931 |
| Interest and other income | 1,038 | 986 |
| Total revenues | 49,520 | 44,917 |
| **Expenses:** | | |
| Property operations and maintenance | 11,220 | 10,025 |
| Real estate taxes | 4,702 | 4,205 |
| General and administrative | 3,998 | 3,301 |
| Interest | 7,378 | 7,586 |
| Depreciation and amortization | 8,298 | 7,371 |
| Equity in losses (income) of joint ventures | 56 | (146) |
| Total expenses | 35,652 | 32,342 |
| Income before minority interest | 13,868 | 12,575 |
| Minority interest - Operating Partnership | (613) | (779) |
| Minority interest - consolidated joint venture | (501) | - |
| Net Income | 12,754 | 11,796 |
| Series B preferred stock dividend | (1,478) | (1,478) |
| Net income available to common shareholders | $ 11,276 | $ 10,318 |
| **Per common share:** | | |
| Earnings per common share - basic | $ 0.90 | $ 0.85 |
| Earnings per common share - diluted | $ 0.89 | $ 0.85 |

Common shares used in basic earnings

| | | |
|---|---|---|
| per share calculation | 12,519,064 | 12,130,262 |
| Common shares used in diluted earnings per share calculation | 12,736,869 | 12,181,020 |
| Dividends declared per common share | $ 1.18 | $ 1.16 |

See notes to financial statements.

**SOVRAN SELF STORAGE, INC.**

**STATEMENT OF CASH FLOW**
**(unaudited)**

| (dollars in thousands) | January 1, 2002 to June 30, 2002 | January 1, 2001 to June 30, 2001 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 12,754 | $ 11,796 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,298 | 7,371 |
| Equity in income of joint ventures | 56 | (146) |
| Minority interest | 1,114 | 779 |
| Restricted stock earned | 169 | 171 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (80) | (305) |
| Prepaid expenses and other assets | (152) | (290) |
| Accounts payable and other liabilities | 2,582 | (15) |
| Deferred revenue | 194 | 319 |
| Net cash provided by operating activities | 24,935 | 19,680 |
| **Investing Activities** | | |
| Additions to storage facilities | (60,633) | (8,378) |
| Advances to joint ventures | (669) | (12,101) |
| Receipts from related parties | 25 | 1,271 |
| Net cash used in investing activities | (61,277) | (19,208) |
| **Financing Activities** | | |
| Net proceeds from issuance of common stock through Dividend Reinvestment and Stock Purchase Plan and Stock Option Plan | 12,942 | 4,011 |
| Proceeds from line of credit draw down | 1,000 | 15,000 |
| Proceeds from mortgage financing | 48,000 | - |
| Financing costs | (454) | - |
| Dividends paid-common stock | (14,672) | (14,019) |
| Dividends paid-preferred stock | (1,478) | (1,478) |
| Minority interest distributions | (1,399) | (922) |
| Purchase of treasury stock | - | (449) |
| Redemption of Operating Partnership Units | (3,029) | (1,276) |
| Mortgage principal payments | (173) | (16) |
| Net cash provided by financing activities | 40,737 | 851 |
| Net increase in cash | 4,395 | 1,323 |
| Cash at beginning of period | 1,883 | 1,421 |
| Cash at end of period | $ 6,278 | $ 2,744 |

Supplemental cash flow information

| | | |
|---|---|---|
| Cash paid for interest | $ 7,236 | $ 7,950 |
| Fair value of net liabilities assumed on the acquisition of storage facilities | 440 | - - |

Dividends declared but unpaid were $7,583 at June 30, 2002 and $7,110 at June 30, 2001.

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, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

### 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. At June 30, 2002, the Company owned and/or managed 260 self-storage properties under the "Uncle Bob's Self Storage"® trade name 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 95.79% ownership interest therein as of June 30, 2002. The remaining ownership interests in the Operating Partnership (the "Units") 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 Operating Partnership, and Locke Sovran II, LLC, a majority owned joint venture. All intercompany transactions and balances have been eliminated. Investments in joint ventures which are not majority owned are reported using the equity method.

### 3. INVESTMENT IN STORAGE FACILITIES

The following summarizes activity in storage facilities during the six-month period ended June 30, 2002.

| (dollars in thousands) | |
|---|---|
| Cost: | |
| Beginning balance | $ 611,289 |
| Property acquisitions | 53,620 |
| Improvements and equipment additions | 7,537 |
| Dispositions | (165) |
| Ending balance | $ 672,281 |

| | |
|---|---|
| Accumulated Depreciation: | |
| Beginning balance | $ 59,091 |
| Additions during the period | 7,779 |
| Dispositions | (83) |
| Ending balance | $ 66,787 |

**4. UNSECURED LINE OF CREDIT AND TERM NOTE**

The Company has a $150 million revolving line of credit due November 2003 at LIBOR plus 1.375%, a $75 million term loan due November 2003 (extendable, at the Company's option to November 2005) at LIBOR plus 1.75%, and a $30 million term loan due November 2002 at LIBOR plus 1.375%. The weighted average interest rate at June 30, 2002 on the Company's credit facility before the effect of interest rate swaps was approximately 3.4%. At June 30, 2002, there was $15 million available on the line of credit.

The Company has entered into three interest rate swap agreements, one in March 2001 for $50 million and two in September 2001 for $50 million and $30 million, to effectively convert a total of $130 million of variable-rate debt to fixed-rate debt. One of the $50 million interest rate swap agreements matures in November 2005, the other matures in October 2006, and the $30 million swap agreement matures in September 2008.

Based on current interest rates, the Company estimates that payments under the interest rate swaps will be approximately $3.9 million in 2002. Payments made under the interest rate swap agreements will be reclassified to interest expense as settlements occur. The fair value of the swap agreements at June 30, 2002 was a $2.9 million liability.

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

**5. MORTGAGES PAYABLE**

In February 2002, the consolidated joint venture (Locke Sovran II, LLC) entered into a mortgage note of $48 million. The note is secured by the 27 properties owned by the joint venture with a value of $80 million. The 10-year note bears interest at 7.19%.

The Company also has a $2 million note secured by a single property.

**6. 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.

**7. INVESTMENT IN JOINT VENTURES**

Investment in joint ventures includes an ownership interest in Locke Sovran I, LLC, which operates 11 self-storage facilities in various states, and an ownership interest in Iskalo Office Holdings, LLC, which owns the building that houses the Company's headquarters and other tenants.

In December 2000, the Company contributed seven self-storage properties to Locke Sovran I, LLC with a fair market value of $19.8 million, in exchange for a $15 million 1 year note receivable bearing interest at LIBOR plus 1.75% that was repaid in 2001, and a 45% interest in Locke Sovran I, LLC. This transaction resulted in a gain on the disposal of the properties of approximately $4.3 million; $1.9 million of this gain was deferred as a result of the Company's continuing ownership interest in Locke Sovran I, LLC, as such the initial investment, including cash funding, was recorded at $3.1 million. The deferred gain is being amortized over the life of the properties, consistent with the depreciation expense recorded by Locke Sovran I, LLC.

The Company also has a 49% ownership interest in Iskalo Office Holdings, LLC at June 30, 2002. The majority of the $1.4 million investment relates to interest bearing loans made by the Company to the joint venture.

## 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:

| (in thousands except per share data) | Six Months Ended June 30, 2002 | Six Months Ended June 30, 2001 |
|---|---|---|
| Numerator: | | |
| Net income available to common shareholders | $ 11,276 | $ 10,318 |
| Denominator: | | |
| Denominator for basic earnings per share - weighted average shares | 12,519 | 12,130 |
| Effect of Diluted Securities: | | |
| Stock options | 218 | 51 |
| Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion | 12,737 | 12,181 |
| Basic earnings per common share | $ 0.90 | $ 0.85 |
| Diluted earnings per common share | $ 0.89 | $ 0.85 |

## 9. SUBSEQUENT EVENT

On July 3, 2002, the Company entered into an agreement for the issuance of $70 million of Series C Convertible Cumulative Preferred Stock ("Series C Preferred") through a privately negotiated transaction. The Company immediately issued $40 million of the Series C Preferred ("Initial Closing") and agreed to issue the remaining $30 million of Series C Preferred in up to two subsequent closings with a final closing date of no later than November 30, 2002.

The Series C Preferred has a fixed annual dividend rate equal to the greater of 8.375% or the actual dividend paid on the number of the Company's common shares into which the Series C Preferred is convertible. The Series C Preferred has a conversion price of $32.60 per share and can be redeemed at the Company's option after five years. In addition, the Company issued warrants to the investors to purchase 379,166 common shares of the Company at a price of $32.60 per share that expire November 30, 2007.

Proceeds from the Initial Closing were partially used to reduce indebtedness that funded the June acquisition of seven self storage properties located in Houston, TX. The remaining proceeds are expected to be used to repay the Company's term loan due November 2002.

## 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/or manages a portfolio of 260 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," "expects," "anticipates," and similar expressions are intended to identify "forward-looking statements" within the meaning of that term in Section 27A of the Securities Exchange 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 ability to form joint ventures and sell existing properties to those joint ventures; the Company's ability to effectively compete in the industry in which it does business; 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; interest rates may fluctuate, impacting costs associated with the Company's outstanding floating rate debt; 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 $135 million was drawn on June 30, 2002. The facility matures in November 2003 and bears interest at LIBOR plus 1.375%.

In addition to the credit facility, the Company has two unsecured term notes; one in the amount of $30 million due November 2002 bearing interest at LIBOR plus 1.375% and the other in the a mount of $75 million bearing interest at LIBOR plus 1.75%. The $75 million note has a maturity date of November 2003, but can be extended through November 2005 at the Company's option.

The credit facility and term notes currently have investment grade ratings from Standard and Poor's (BBB-), Moody's (Baa3), and Fitch (BBB-).

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 outstanding balance on the credit facility. The Series B Preferred Stock is currently rated by Standard and Poor's (BB+), Moody's (Ba2) and Fitch (BB+).

In February 2002, the consolidated joint venture (Locke Sovran II, LLC) entered into a mortgage note of $48 million. The note is secured by the 27 properties owned by the joint venture with a value of $80 million. The 10-year note bears interest at 7.19%.

On July 3, 2002, the Company entered into an agreement for the issuance of $70 million of Series C Convertible Cumulative Preferred Stock through a privately negotiated transaction. Fitch Ratings assigned a credit rating of BB+ to the Series C Preferred. The Company immediately issued $40 million of the Series C Preferred and agreed to issue the remaining $30 million of Series C Preferred in up to two subsequent closings with a final closing date of no later than November 30, 2002.

The Series C Preferred has a fixed annual dividend rate equal to the greater of 8.375% or the actual dividend paid on the number of the Company's common shares into which the Series C Preferred is convertible. The Series C Preferred has a conversion price of $32.60 per share and can be redeemed at the Company's option after five years. In addition, the Company issued warrants to the investors to purchase 379,166 common shares of the Company at a price of $32.60 per share that expire November 30, 2007.

Proceeds from the Initial Closing were partially used to reduce indebtedness that funded the recently closed acquisition of seven self storage properties located in Houston, TX totaling $25.5 million.

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 share repurchases for the year 2002. The Company expects to fund its maturing $30 million term note with the subsequent closings of the Series C Preferred. Future growth is expected to be funded through issuance of secured or unsecured term notes, issuance of common or preferred stock, sale of properties, private placement solicitation of joint venture equity and other sources of capital.

## 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, 2002, 563,950 Units are outstanding that were 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. During the six months ended June 30, 2002, the Company purchased 7 properties for $25.9 million and the Company's consolidated joint venture (Locke Sovran II, LLC) purchased 12 properties for $27.7 million. The properties are located in Houston, TX and Syracuse, NY.

## 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 90% 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, 2002, the Company's percentage of revenue from such sources exceeded 97%, 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

FOR THE PERIOD JANUARY 1, 2002 THROUGH JUNE 30, 2002, COMPARED TO THE PERIOD JANUARY 1, 2001 THROUGH JUNE 30, 2001 (DOLLARS IN THOUSANDS)

Total revenues increased from $44,917 for the six months ended June 30, 2001, to $49,520 for the six months ended June 30, 2002, an increase of $4,603 or 10.2%. This increase consisted of $869 that was realized as a result of increased rental rates at the 222 properties owned by the Company at January 1, 2001, and $3,734 resulted from the operations of 27 properties acquired in 2001 and 2002. Overall, same-store revenues grew 1.5% for the six-month period ended June 30, 2002 as compared to the same period in 2001.

Property operating and real estate tax expense increased $1,692 or 11.9% during the period. $491 related to the operations of its sites operated more than one year, and $1,201 was a result of absorbing additional expenses from operating the newly acquired properties.

General and administrative expenses increased $697 principally as a result of increased administrative costs associated with managing the additional properties and the costs related to the Company's customer care center.

Interest expense decreased $208 due to a reduction of interest rates.

Income before minority interest increased from $12,575 to $13,868.

THREE MONTHS ENDED JUNE 30, 2002, COMPARED TO THREE MONTHS ENDED JUNE 30, 2001 (DOLLARS IN THOUSANDS)

The following discussion compares the activities of the Company for the three months ended June 30, 2002 with the activities of the Company for the three months ended June 30, 2001.

Total revenues increased from $22,675 for the three months ended June 30, 2001 to $25,271 for the three months ended June 30, 2002, an increase of $2,596 or 11.4%. This increase consisted of $438 that was realized as a result of increased rental rates at the 222 properties owned by the Company at January 1, 2001, and $2,158 resulted from the operations of 27 properties acquired in 2001 and 2002. Overall, same-store revenues grew 1.1% for the three-month period ended June 30, 2002 as compared to the same period in 2001. This increase in same store revenues was due to an increase in rental rates offset by a decrease in occupancy.

Property operating and real estate tax expense increased $993 or 14.2% during the period. $274 related to the operations of its sites operated more than one year, and $719 was a result of absorbing additional expenses from operating the newly acquired properties.

General and administrative expenses increased $271 principally as a result of increased administrative costs associated with managing the additional properties and the costs related to the Company's customer care center.

Interest expense increased $372 due to increased borrowings offset by a reduction of interest rates.

Income before minority interest increased from $6,854 to $7,181.

**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:

| (in thousands) | Six months ended June 30, 2002 | Six months ended June 30, 2001 |
|---|---|---|
| Net income | $ 12,754 | $ 11,796 |
| Minority interest in income | 1,114 | 779 |
| Depreciation of real estate and amortization of intangible assets exclusive of deferred financing fees | 7,862 | 6,949 |
| Depreciation and amortization from unconsolidated joint ventures | 274 | 147 |
| Preferred dividends | (1,478) | (1,478) |
| Funds from operations allocable to minority interest in Operating Partnership | (894) | (1,128) |
| Funds from operations allocable to minority interest in consolidated joint venture | (897) | - |
| FFO available to common shareholders | $ 18,735 | $ 17,065 |

**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 provides 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 and cap agreements. At June 30, 2002, the Company has three outstanding interest rate swap agreements. The first, entered in March 2001, effectively fixes the LIBOR base rate at 5.36% through November 2005 on $50 million notional amount. The second, entered in September 2001, effectively fixes the LIBOR base rate at 4.485% through October 2006 on another $50 million notional amount. The third, also entered in September 2001, effectively fixes the LIBOR base rate at 4.805% through September 2008 on $30 million notional amount. The Company has an unsecured credit facility in place through November 2003 enabling the Company to borrow funds at rates of LIBOR plus 1.375% and 1.75%. Accordingly, as a result of the above described interest rate swap agreements, the Company has fixed its interest rate through November 2003 on $50 million at 6.735%, on another $50 million at 5.86%, and on $30 million at 6.555%. Upon renewal or replacement of the credit facility, the Company's total interest may change dependent on the terms it negotiates with its lenders; however, the LIBOR base rates have been contractually fixed on $130 million of the Company's debt through the interest rate swap termination dates.

Because all but $130 million of the Company's outstanding unsecured debt of $240 million is on a floating rate basis, changes in short term interest rates could have a significant impact on the Company's earnings and funds from operations. Should the Company enter into further rate swap agreements, earnings could be negatively affected, as short-term rates are presently significantly below the five and seven year cost of funds.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

No disclosure required.

**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

On July 3, 2002, the Company entered into an agreement for the issuance of $70 million of Series C Convertible Cumulative Preferred Stock through a privately negotiated transaction. The Company immediately issued $40 million of the Series C Preferred and agreed to issue the remaining $30 million of Series C Preferred in up to two subsequent closings with a final closing date of no later than November 30, 2002.

The Series C Preferred has a fixed annual dividend rate equal to the greater of 8.375% or the actual dividend paid on the number of the Company's common shares into which the Series C Preferred is convertible. The Series C Preferred is on parity with the Series B Preferred with respect to dividends and liquidation preferences. The Series C Preferred has a conversion price of $32.60 per share and can be redeemed at the Company's option after five years. In addition, the Company issued warrants to the investors to purchase 379,166 common shares of the Company at a price of $32.60 per share that expire November 30, 2007.

Proceeds from the Initial Closing were partially used to reduce indebtedness that funded the June acquisition of seven self storage properties located in Houston, TX. The remaining proceeds are expected to be used to repay the Company's term loan due November 2002.

**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 Thursday May 16, 2002.

b.)

| Directors | Votes For | Votes Withheld |
|---|---|---|
| Robert J. Attea | 9,929,974 | 662,483 |
| Kenneth F. Myszka | 9,929,974 | 662,483 |
| John E. Burns | 10,464,609 | 127,848 |
| Michael A. Elia | 10,464,073 | 128,383 |
| Anthony P. Gammie | 10,464,609 | 127,848 |
| Charles E. Lannon | 10,464,709 | 127,748 |

c.) The ratification of the appointment of Ernst & Young LLP as independent auditors of the Company for the fiscal year ending December 31, 2002.

| | |
|---|---|
| Votes For | 10,358,172 |
| Votes Against | 198,704 |
| Abstentions | 35,579 |
| Broker Nonvotes | 3 |

No disclosure required.

**ITEM 5. OTHER INFORMATION**

No disclosure required.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits:

| Exhibit Number | Description |
|---|---|
| 10.1 | Sovran Self Storage, Inc. 1995 Outside Directors' Stock Option Plan, as amended |
| 99.1 | Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended June 30, 2002. A Form 8-K was filed on July 12, 2002, date of report July 3, 2002, regarding the Registrant's entering into a Securities Purchase Agreement for the issuance of 2,800,000 shares of Series C Convertible Cumulative Preferred Stock.

SIGNATURES

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.

Sovran Self Storage, Inc.

By: / S / David L. Rogers
David L. Rogers
Secretary, Chief Financial Officer

August 12, 2002
Date

**Exhibit 10.1**

**SOVRAN SELF STORAGE, INC.**
**1995 OUTSIDE DIRECTORS' STOCK OPTION PLAN**
**(AS AMENDED)**

SECTION 1.

PURPOSE

1.1 The purpose of the "SOVRAN SELF STORAGE, INC. 1995 OUTSIDE DIRECTORS' STOCK OPTION PLAN" (the "Plan") is to foster and promote the long-term financial success of the Company and materially increase stockholder value by enabling the Company to attract and retain the services of outstanding Outside Directors (as defined herein) whose judgment, interest, and special effort is essential to the successful conduct of its operations.

SECTION 2.

DEFINITIONS

2.1 "Annual Award" means an Option for 3,500 shares of Stock.

2.2 "Awards" means Annual Awards and Initial Awards.

2.3 "Board" means the Board of Directors of the Company.

2.4 "Company" means Sovran Self Storage, Inc., a Maryland corporation, and any successor thereto.

2.5 "Disability" means total disability, which if the Outside Director were an employee of the Company, would be treated as a total disability under the terms of the Company's long-term disability plan for employees, as in effect from time to time.

2.6 "Fair Market Value" on any date means the average of the high and low sales prices of a share of Stock as reflected in the report of consolidated trading of New York Stock Exchange-listed securities (or, if the Stock is not then listed on the New York Stock Exchange ("NYSE"), the principal public trading market for such shares) for that date (or if no shares of Stock were traded on the NYSE or such other principal public trading market on that date, the next preceding date that shares of Stock were so traded) published in the Midwest Edition of The Wall Street Journal; provided, however, that if no shares of Stock have been publicly traded for more than ten (10) days immediately preceding such date, then the Fair Market Value of a share of Stock shall be determined by the Board or its authorized Committee in such manner as it may deem appropriate.

2.7 "Initial Award" means an Option for 3,500 shares of Stock.

2.8 "Option" means the right to purchase Stock at a stated price for a specified period of time. All Options granted under the Plan shall be non-statutory options not entitled to special tax treatment under Section 422 of the Internal Revenue Code, as amended.

2.9 "Outside Director" means each person who, on the date of an Initial Award or as of the close of the day on which an Annual Award is granted, is a director of the Company and who, as of such day, is not otherwise an officer or employee of the Company or any of its subsidiaries.

2.10 "Stock" means the common stock of the Company, $.01 par value per share.

## SECTION 3.

## ELIGIBILITY AND PARTICIPATION

Each Outside Director shall participate in the Plan.

## SECTION 4.

## STOCK SUBJECT TO PLAN

4.1 Number. The total number of shares of Stock subject to Awards under the Plan may not exceed 100,000 shares, subject to adjustment pursuant to Section 4.3. The shares to be delivered under the Plan may consist, in whole or in part, of treasury Stock or authorized but unissued Stock, not reserved for any other purpose.

4.2 Canceled or Terminated Awards. Any shares of Stock subject to an Option which for any reason is canceled or terminated without the issuance of Stock shall again be available for Awards under the Plan.

4.3 Adjustment in Capitalization. In the event of any Stock dividend or Stock split, recapitalization (including, without limitation, the payment of an extraordinary dividend), merger, consolidation, combination, spin-off, distribution of assets to stockholders, exchange of shares, or other similar corporate change in which the Company survives the transaction, the aggregate number of shares of Stock available for issuance hereunder or subject to Options and the respective exercise prices of outstanding Options shall be appropriately adjusted by the Board or its authorized Committee, whose determination shall be conclusive; provided, however, that any fractional shares resulting from any such adjustment shall be disregarded.

## SECTION 5.

## STOCK OPTIONS

5.1 Grant of Options.

(a) Initial Awards. Effective on the later of the date of the completion of the initial public offering of shares of Stock or the date the Outside Director is first elected or appointed to the Board, each Outside Director who has not previously been granted an Initial Award shall be granted an Initial Award.

(b) Annual Awards. Thereafter, effective as of the close of each annual meeting of the stockholders of the Company, each Outside Director shall be granted an Annual Award.

(c) Option Agreement. Each Option shall be evidenced by an Option agreement that shall specify the exercise price, the term of the Option, the number of shares of Stock to which the Option pertains and such other matters, not inconsistent herewith, as the Committee deems necessary or appropriate.

(d) Limitations. All grants of Options under the Plan shall be subject to the availability of shares hereunder, and no Option shall be granted under the Plan to the extent necessary to prevent Outside Directors serving as the administrators of any of the Company's other stock option or employee benefit plans from failing to qualify as "disinterested persons" under Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 16b-3").

5.2 Option Price. Each Option granted pursuant to the Plan shall have an exercise price equal to the Fair Market Value of a share of Stock on the date the Option is granted.

5.3 Vesting and Exercise of Options.

(a) Initial Awards. Options granted pursuant to an Initial Award under this Plan shall vest and become exercisable on the first anniversary of the date of grant.

(b) Annual Awards. Options granted pursuant to an Annual Award under this Plan shall be immediately vested and exercisable on the date of grant.

(c) Exercise Period. Options shall terminate and cease to be exercisable on the earlier of (i) the tenth anniversary of the date of the Option's grant, or (ii) the date on which the Outside Director to whom such Option was granted ceases for any reason to serve as a director of the Company; provided, however, that in the event an Outside Director ceases to serve as a director of the Company by reason of the Outside Director's Disability, death or mandatory resignation due to age, the Outside Director, or his or her personal representative, may exercise any outstanding Options not theretofore exercised, to the extent exercisable on the date of such Disability, death or resignation, during the one-year period following such Disability, death or resignation.

5.4 Services as an Employee. Notwithstanding any other provision of the Plan, if an Outside Director becomes an employee of the Company or any of its subsidiaries (a "Former Outside Director"), the Former Outside Director shall be treated as continuing in service for purposes of this Plan, but shall not be eligible to receive Annual Awards while an employee or for one full year thereafter. If during this period of ineligibility the Former Outside Director ceases to be an employee, the provisions of Section 5.3(c) shall continue to be applicable.

5.5 Exercise. Options may be exercised, in whole or in part and only to the extent then exercisable, by giving written notice of exercise to the Company accompanied by full payment of the Option price by one or more of the following methods of payment:

(a) In cash, by certified or bank check or other instrument acceptable to the Board or its authorized committee;

(b) In the form of shares of Stock that are not then subject to restrictions under any Company plan, if permitted by the Board or its authorized committee, in its discretion. Such surrendered shares shall be valued at Fair Market Value on the date of exercise; or

(c) By the Outside Director delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company to pay the Option price; provided that in the event the Outside Director chooses to pay the Option price as so provided, the Outside Director and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Company shall prescribe as a condition of such payment procedure. Payment instruments will be received subject to collection.

## SECTION 6.

## AMENDMENT, MODIFICATION, AND TERMINATION OF PLAN

The Plan shall be administered in accordance with Rule 16b-3 by the Board or an authorized committee thereof (in which case all references to the Board shall refer to such committee while such committee administers this Plan), which shall make any determination under or interpretation of any provision of the Plan and any Option. Any of the foregoing actions taken by the Board shall be final and conclusive. The Board may terminate or suspend the Plan, and may amend and make such changes in and additions to the Plan (and, with the consent of the applicable Outside Director any outstanding Option) as it may deem proper and in the best interest of the Company; provided, however, that no such action shall adversely affect or impair any Options theretofore granted under the Plan without the consent of the applicable Outside Director; and provided further, however, that no amendment (i) increasing the maximum number of shares of Stock which may be issued under the Plan, except as provided in Section 4.3, (ii) extending the term of the Plan or any Option, (iii) changing the requirements as to eligibility for participation in the Plan, or (iv) otherwise requiring approval of stockholders under Rule 16b-3, shall be adopted without the approval of stockholders. Notwithstanding anything to the contrary herein, the Plan shall not be amended more than once in every six month period, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder.

## SECTION 7.

EFFECT OF CERTAIN TRANSACTIONS

In the case of (a) the dissolution or liquidation of the Company, (b) a merger, reorganization or consolidation in which the Company is acquired by another person or in which the Company is not the surviving corporation, or (c) the sale of all or substantially all of the outstanding Stock or assets of the Company to another entity, the Plan and Options issued hereunder shall terminate on the effective date of such dissolution, liquidation, merger, reorganization, consolidation or sale, unless provision is made in such transaction for the assumption of Options theretofore granted under the Plan or the substitution for such Options of a new stock option of the successor corporation or a parent or subsidiary thereof, with appropriate adjustment as to the number and kind of shares and the pe r share exercise price, such as provided in Section 4.3 of the Plan. In the event of any transaction which will trigger such termination, the Company shall give written notice thereof to the Outside Directors at least twenty days prior to the effective date of such transaction or the record date on which stockholders of the Company entitled to participate in such transaction shall be determined, whichever comes first. In the event of such termination, any unexercised portion of outstanding Options, which is vested and exercisable at that time, shall be exercisable for at least 15 days prior to the date of such termination; provided, however, that in no event shall any Option be exercisable after the applicable expiration date for the Option.

SECTION 8.

MISCELLANEOUS PROVISIONS

8.1 Nontransferability of Awards. No Options may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. All rights with respect to Options granted to an Outside Director shall be exercisable during his lifetime only by him.

8.2 Rights As A Stockholder. An Outside Director or a transferee of an Option shall not have any rights as a stockholder with respect to any shares of Stock issuable upon exercise of an Option until the date of the receipt of payment by the Company. No adjustments pursuant to Section 4.3 shall be made as to any Option for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is after such date.

8.3 No Guarantee of Membership. Nothing in the Plan shall confer upon an Outside Director the right to remain a member of the Board.

8.4 Requirements of Law. The granting of Options and the issuance of shares of Stock upon the exercise of Options shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental or self-regulatory or other agencies as may be required.

8.5 Term of Plan. The Plan shall be effective upon its approval by the stockholders of the Company. The Plan shall continue in effect, unless sooner terminated or suspended pursuant to Section 6, until the tenth anniversary of the date on which it is approved by the stockholders of the Company, so long as the total number of shares of Stock purchased under the Plan or subject to outstanding Options does not exceed the number of shares of Stock specified in Section 4.1, subject to adjustment pursuant to Section 4.3. Notwithstanding the foregoing, each Option granted under the Plan shall remain in effect until such Option has been exercised or has terminated in accordance with its terms and the terms of the Plan.

8.6 Separability. In case any provision of the Plan shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

8.7 Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of New York.

**Certification Pursuant to 18 U.S.C. Section 1350**
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Sovran Self Storage, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2002, as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2002

/ S / Robert J. Attea
Robert J. Attea
Chairman of the Board
Chief Executive Officer

/ S / David L. Rogers
David L. Rogers
Chief Financial Officer