

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, 2003

Commission file number: 1-13820

**SOVRAN SELF STORAGE, INC.**

(Exact name of Registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

16-1194043  
(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 \_\_\_\_\_

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No \_\_\_\_\_

As of August 8, 2003 there were outstanding 13,389,747 shares of the registrant's Common Stock, \$.01 par value.

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

(dollars in thousands, except share data)	June 30, 2003 <u>(unaudited)</u>	December 31, <u>2002</u>
Assets		
Investment in storage facilities:		
Land	\$ 133,229	\$ 132,853
Building and equipment	<u>586,399</u>	<u>577,988</u>
	719,628	710,841
Less: accumulated depreciation	<u>(84,184)</u>	<u>(75,344)</u>
Investment in storage facilities, net	635,444	635,497
Cash and cash equivalents	7,154	2,063

Accounts receivable	1,489	1,785
Receivable from related parties	99	98
Receivable from joint ventures	2,032	2,023
Investment in joint ventures	3,227	3,386
Prepaid expenses	2,893	2,719
Other assets	<u>5,799</u>	<u>4,766</u>
Total Assets	<u>\$ 658,137</u>	<u>\$ 652,337</u>
Liabilities		
Line of credit	\$131,000	\$128,000
Term note	75,000	75,000
Accounts payable and accrued liabilities	6,934	5,024
Deferred revenue	3,790	3,468
Fair value of interest rate swap agreements	11,323	10,020
Accrued dividends	7,948	7,791
Capital lease obligations	3,202	1,933
Mortgage payable	<u>47,170</u>	<u>47,519</u>
Total Liabilities	286,367	278,755
Minority interest - Operating Partnership	14,218	14,277
Minority interest - consolidated joint venture	16,073	16,531
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
8.375% Series C Convertible Cumulative Preferred Stock, \$.01 par value, 2,800,000 shares issued and outstanding, \$70,000 liquidation value	67,129	67,129
Common stock \$.01 par value, 100,000,000 shares authorized, 13,220,972 shares outstanding (12,984,339 at December 31, 2002)	144	140
Additional paid-in capital	327,042	317,423
Unearned restricted stock	(1,916)	(2,134)
Dividends in excess of net income	(41,007)	(35,124)
Accumulated other comprehensive loss	(11,323)	(10,020)
Treasury stock at cost, 1,171,886 shares (1,026,070 shares at December 31, 2002)	<u>(27,175)</u>	<u>(23,225)</u>
Total Shareholders' Equity	<u>341,479</u>	<u>342,774</u>
Total Liabilities and Shareholders' Equity	<u>\$658,137</u>	<u>\$652,337</u>

See notes to financial statements.

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

	April 1, 2003 to <u>June 30, 2003</u>	April 1, 2002 to <u>June 30, 2002</u>
<u>(dollars in thousands, except share data)</u>		
<b>Revenues:</b>		
Rental income	\$ 27,224	\$ 24,699
Other operating income	<u>697</u>	<u>478</u>
Total revenues	27,921	25,177
<b>Expenses:</b>		

Property operations and maintenance	6,914	5,592
Real estate taxes	2,518	2,376
General and administrative	2,356	1,974
Depreciation and amortization	<u>4,671</u>	<u>4,202</u>
Total operating expenses	<u>16,459</u>	<u>14,144</u>
Income from operations	11,462	11,033
Other income (expense):		
Interest expense	(3,562)	(3,895)
Interest income	104	94
Minority interest - Operating Partnership	(321)	(311)
Minority interest - consolidated joint venture	(152)	(225)
Equity in income (losses) of joint ventures	<u>31</u>	<u>(51)</u>
Net Income	7,562	6,645
Preferred stock dividends	<u>(2,204)</u>	<u>(739)</u>
Net income available to common shareholders	<u>\$ 5,358</u>	<u>\$ 5,906</u>
<b>Per common share:</b>		
Earnings per common share - basic	<u>\$ 0.41</u>	<u>\$ 0.47</u>
Earnings per common share - diluted	<u>\$ 0.41</u>	<u>\$ 0.46</u>
Common shares used in basic earnings per share calculation	13,060,212	12,603,818
Common shares used in diluted earnings per share calculation	13,184,273	12,807,202
Dividends declared per common share	<u>\$ 0.60</u>	<u>\$ 0.59</u>

See notes to financial statements.

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

<u>(dollars in thousands, except share data)</u>	January 1, 2003 to June 30, 2003	January 1, 2002 to June 30, 2002
<b>Revenues:</b>		
Rental income	\$ 53,691	\$ 48,482
Other operating income	<u>1,283</u>	<u>862</u>
Total revenues	54,974	49,344
<b>Expenses:</b>		
Property operations and maintenance	13,754	11,220
Real estate taxes	5,157	4,702
General and administrative	4,666	3,998

Depreciation and amortization	<u>9,351</u>	<u>8,298</u>
Total operating expenses	<u>32,928</u>	<u>28,218</u>
Income from operations	22,046	21,126
Other income (expense):		
Interest expense	(7,118)	(7,378)
Interest income	207	176
Minority interest - Operating Partnership	(607)	(613)
Minority interest - consolidated joint venture	(315)	(501)
Equity in income (losses) of joint ventures	<u>33</u>	<u>(56)</u>
Net Income	14,246	12,754
Preferred stock dividends	<u>(4,409)</u>	<u>(1,478)</u>
Net income available to common shareholders	<u>\$ 9,837</u>	<u>\$ 11,276</u>
<b>Per common share:</b>		
Earnings per common share - basic	<u>\$ 0.76</u>	<u>\$ 0.90</u>
Earnings per common share - diluted	<u>\$ 0.75</u>	<u>\$ 0.89</u>
Common shares used in basic earnings per share calculation	13,015,243	12,519,064
Common shares used in diluted earnings per share calculation	13,125,419	12,736,869
Dividends declared per common share	<u>\$ 1.20</u>	<u>\$ 1.18</u>

See notes to financial statements.

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**SOVRAN SELF STORAGE, INC.**  
**STATEMENT OF CASH FLOW**  
**(unaudited)**

<u>(dollars in thousands)</u>	<u>January 1, 2003</u> to <u>June 30, 2003</u>	<u>January 1, 2002</u> to <u>June 30, 2002</u>
<b>Operating Activities</b>		
Net income	\$ 14,246	\$ 12,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,351	8,298
Equity in (income) losses of joint ventures	(33)	56
Minority interest	922	1,114
Restricted stock earned	218	169
Changes in assets and liabilities:		
Accounts receivable	296	(80)
Prepaid expenses	(174)	(152)
Accounts payable and other liabilities	1,910	2,582
Deferred revenue	<u>322</u>	<u>194</u>

Net cash provided by operating activities	<u>27,058</u>	<u>24,935</u>
<b>Investing Activities</b>		
Additions to storage facilities	(7,273)	(60,633)
Advances to joint ventures	(9)	(669)
(Advances to) receipts from related parties	(1)	25
Other assets	<u>(1,529)</u>	<u>-</u>
Net cash used in investing activities	<u>(8,812)</u>	<u>(61,277)</u>
<b>Financing Activities</b>		
Net proceeds from issuance of common stock through Dividend Reinvestment and Stock Purchase Plan and Stock Option Plan	9,625	12,942
Proceeds from line of credit	3,000	1,000
Proceeds from mortgage financing	-	48,000
Financing costs	-	(454)
Dividends paid-common stock	(15,565)	(14,672)
Dividends paid-preferred stock	(4,409)	(1,478)
Distributions from unconsolidated joint venture	192	-
Minority interest distributions	(1,439)	(1,399)
Purchase of treasury stock	(3,950)	-
Redemption of Operating Partnership Units	-	(3,029)
Mortgage and capital lease principal payments	<u>(609)</u>	<u>(173)</u>
Net cash (used in) provided by financing activities	<u>(13,155)</u>	<u>40,737</u>
Net increase in cash	5,091	4,395
Cash at beginning of period	<u>2,063</u>	<u>1,883</u>
Cash at end of period	<u>\$ 7,154</u>	<u>\$ 6,278</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 7,178	\$ 7,236
Fair value of net liabilities assumed on the acquisition of storage facilities	-	440

Dividends declared but unpaid were \$7,948 at June 30, 2003 and \$7,583 at June 30, 2002.

See notes to financial statements.

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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, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

**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, 2003, the Company owned and/or managed 264 self-storage properties under the "Uncle Bob's Self Storage" Registered 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. The Company controls the operations of the Operating Partnership as a result of holding a 95.97% ownership interest therein as of June 30, 2003. 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 controlled joint venture. All intercompany transactions and balances have been eliminated. Investments in joint ventures which are not majority owned or controlled are reported using the equity method.

### 3. STOCK-BASED COMPENSATION

In accordance with the provisions of SFAS No. 123 "Accounting for Stock-Based Compensation," the Company has elected to continue applying the provisions of Accounting Principles Board Opinion No. 25 (APB 25) and related interpretations in accounting for its stock-based compensation plans. Accordingly, the Company does not recognize compensation expense for stock options when the stock option price at the grant date is equal to or greater than the fair market value of the stock at that date. The following illustrates the pro forma effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 (in thousands, except for earnings per share information):

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(dollars in thousands, except per share data)	<u>Six Months Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
Net income available to common shareholders as reported	\$ 9,837	\$ 11,276
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards	<u>(88)</u>	<u>(90)</u>
Pro forma net income available to common shareholders	\$ 9,749	\$ 11,186
Earnings per common share		
Basic - as reported	\$ 0.76	\$ 0.90
Basic - pro forma	\$ 0.75	\$ 0.89
Diluted - as reported	\$ 0.75	\$ 0.89
Diluted - pro forma	\$ 0.74	\$ 0.88

### 4. INVESTMENT IN STORAGE FACILITIES

The following summarizes activity in storage facilities during the six-month period ended June 30, 2003.

(dollars in thousands)

Cost:	
Beginning balance	\$ 710,841
Property acquisitions	-
Improvements and equipment additions	8,828
<u>Dispositions</u>	<u>(41)</u>
<u>Ending balance</u>	<u>\$ 719,628</u>

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Accumulated Depreciation:	
Beginning balance	\$ 75,344
Additions during the period	8,856
Dispositions	<u>(16)</u>
<u>Ending balance</u>	<u>\$ 84,184</u>

## 5. 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% and a \$75 million term loan due November 2003 (extendable, at the Company's option to November 2005) at LIBOR plus 1.75%. The weighted average interest rate at June 30, 2003 on the Company's credit facility before the effect of interest rate swaps was approximately 2.8%. At June 30, 2003, there was \$19 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

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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 \$4.6 million in 2003. 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, 2003 was a \$11.3 million liability.

## 6. MORTGAGES PAYABLE AND CAPITAL LEASE OBLIGATIONS

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 cost of \$79 million. The 10-year note bears interest at 7.19%.

## 7. 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 that individually or in the aggregate would be material to the Company's overall business, financial condition, or results of operations.

## 8. COMPREHENSIVE INCOME

Total comprehensive income consisting of net income and the change in the fair value of interest rate swap agreements was \$12.9 million and \$9.5 million for the six months ended June 30, 2003 and 2002, respectively.

## 9. INVESTMENT IN JOINT VENTURES

Investment in joint ventures includes an ownership interest in Locke Sovran I, LLC, which operates 11 self storage facilities throughout the United 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 one year note receivable bearing interest at LIBOR plus 1.75% that was repaid in 2001, and a 45% interest in Locke Sovran I, LLC.

The Company also has a 49% ownership interest in Iskalo Office Holdings, LLC at June 30, 2003. The majority of the \$1.6 million investment relates to interest bearing loans made by the Company to the joint venture.

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A summary of the unconsolidated joint ventures' operating statements as for the six-months ended June 30, 2003 is as follows:

(dollars in thousands)	Locke Sovran I, <u>LLC</u>	Iskalo Office <u>Holdings, LLC</u>
<u>Income Statement Data:</u>		
Total revenues	\$ 3,052	\$ 467
Total expenses	<u>3,040</u>	<u>451</u>
Net income	<u>\$ 12</u>	<u>\$ 16</u>

The Company does not guarantee the debt of Locke Sovran I, LLC; it does guarantee a \$900,000 demand note payable of Iskalo Office Holdings, LLC.

#### 10. 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 deducts 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)	<u>Six Months Ended June 30, 2003</u>	<u>Six Months Ended June 30, 2002</u>
Numerator:		
Net income available to common shareholders	\$ 9,837	\$ 11,276
Denominator:		
Denominator for basic earnings per share - weighted average shares	13,015	12,519
Effect of Dilutive Securities:		
Stock options	<u>110</u>	<u>218</u>
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion	13,125	12,737
Basic earnings per common share	\$ 0.76	\$ 0.90
Diluted earnings per common share	\$ 0.75	\$ 0.89

Potential common shares from the Series C Convertible Preferred Stock and related warrants were excluded from the 2003 diluted earnings per share calculation because their inclusion would have had an antidilutive effect on earnings per share.



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## **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 264 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 and others; 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 truck leasing program and Dri-Guard product roll-out; the Company's reliance on its call center; 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 \$131 million was drawn on June 30, 2003. The facility matures in November 2003 and bears interest at LIBOR plus 1.375%.

In addition to the credit facility, the Company has a \$75 million unsecured term note 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-).

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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 cost of \$79 million. The 10-year note bears interest at 7.19%.

During 2002 and 2003, the Company entered into lease agreements, qualifying as capital leases, for trucks to be used at its storage facilities.

In July 1999, the Company issued 1,200,000 shares of 9.85% Series B Cumulative Redeemable Preferred Stock. The Series B Preferred Stock is currently rated by Standard and Poor's (BB+), Moody's (Ba2) and Fitch (BB+).

On July 3, 2002, the Company entered into an agreement providing for the issuance of 2,800,000 shares of 8.375% Series C Convertible Cumulative Preferred Stock and warrants to purchase 379,166 shares of common stock at \$32.60 per share in a privately negotiated transaction. The Company immediately issued 1,600,000 shares of the Series C Preferred and issued the remaining 1,200,000 shares on November 27, 2002. The offering price was \$25.00 per share and the net proceeds of \$67.9 million were used to reduce indebtedness that was incurred in the June acquisition of

seven self-storage properties and to repay a portion of the line of credit.

In 2003, the Company acquired 145,816 shares of its common stock via the Share Repurchase Program authorized by the Board of Directors. Through June 30, 2003, the Company has reacquired 1,171,886 shares pursuant to this program. From time to time, subject to market price and certain loan covenants, the Company expects to continue reacquiring shares.

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 2003. The Company expects to replace its maturing unsecured credit facility with a new unsecured credit facility and medium to long-term unsecured term notes. 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, 2003, 554,865 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.

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## **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 its 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, 2003, 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, 2003 THROUGH JUNE 30, 2003, COMPARED TO THE PERIOD JANUARY 1, 2002 THROUGH JUNE 30, 2002 (DOLLARS IN THOUSANDS)

The Company recorded rental revenues of \$53.7 million for the six months ended June 30, 2003, an increase of \$5.2 million or 10.7% when compared to 2002 rental revenues of \$48.5 million. Of this increase, \$2.0 million resulted from a 4.1% increase in revenues at the 241 core properties considered in same store sales. The remaining \$3.2 million increase in rental revenues resulted from the acquisition of 23 stores during 2002. Other income increased \$0.4 million due to additional revenue generated by truck rentals.

Property operating and real estate tax expense increased \$3.0 million or 18.8% in 2003 compared to 2002. Of this, \$1.3 million was related to the facilities acquired in 2002. The remaining \$1.7 million increase was due to increased insurance, personnel, truck, and snow removal expenses and increased property taxes at the 241 core properties considered same stores.

General and administrative expenses increased \$0.7 million or 16.7%. The increase primarily resulted from increased cost in the Company's call center and the increased costs associated with operating the properties acquired in 2002.

Depreciation and amortization expense increased to \$9.4 million from \$8.3 million, primarily as a result of additional depreciation taken on real estate assets acquired in 2002.

Income from operations increased from \$21.1 million in 2002 to \$22.0 million in 2003 as a result of the aforementioned items.

Interest expense decreased from \$7.4 million to \$7.1 million as a result of the paying down of short term debt with proceeds from the issuance of Series C Preferred Stock.

The increase in preferred stock dividends and the reduction in net income available to common shareholders was a result of the issuance of the 8.375% Series C Convertible Cumulative Preferred Stock in July and November of 2002.

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### THREE MONTHS ENDED JUNE 30, 2003, COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2002 (DOLLARS IN THOUSANDS)

The Company recorded rental revenues of \$27.2 million for the quarter ended June 30, 2003, an increase of \$2.5 million or 10.2% when compared to 2002 rental revenues of \$24.7 million. Of this increase, \$0.9 million resulted from a 3.4% increase in revenues at the 253 core properties considered in same store sales for the quarter. The remaining \$1.6 million increase in rental revenues resulted from the acquisition of 11 stores during 2002. Other income increased \$0.2 million due to additional revenue generated by truck rentals.

Property operating and real estate tax expense increased \$1.5 million or 18.4% in 2003 compared to 2002. Of this, \$0.7 million was related to the facilities acquired in 2002. The remaining \$0.8 million increase was due to increased insurance, personnel, and truck expenses at the 253 core properties considered same stores.

General and administrative expenses increased \$0.4 million or 19.4%. The increase primarily resulted from increased cost in the Company's call center and the increased costs associated with operating the properties acquired in 2002.

Depreciation and amortization expense increased to \$4.7 million from \$4.2 million, primarily as a result of additional depreciation taken on real estate assets acquired in 2002.

Income from operations increased from \$11.0 million in 2002 to \$11.5 million in 2003 as a result of the aforementioned items.

Interest expense decreased from \$3.9 million to \$3.6 million as a result of the paying down of short term debt with proceeds from the issuance of Series C Preferred Stock.

The increase in preferred stock dividends and the reduction in net income available to common shareholders was a result of the issuance of the 8.375% Series C Convertible Cumulative Preferred Stock in July and November of 2002.

### **FUNDS FROM OPERATIONS**

The Company believes that Funds from Operations ("FFO") provides relevant and meaningful information about its operating performance that is necessary, along with net earnings and cash flows, for an understanding of its operating results. Funds from operations is defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT") as net income computed in accordance with generally accepted accounting principles ("GAAP"), excluding gains or losses on sales of properties, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that, to further understand our performance, FFO should be compared with our reported net income and cash flows in accordance with GAAP, as presented in our consolidated financial statements.

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Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance, as an alternative to net cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, or as an indicator of our ability to make cash distributions. The following table sets forth the calculation of FFO:

(in thousands)	Six months ended June 30, 2003	Six months ended June 30, 2002
Net income	\$ 14,246	\$ 12,754
Minority interest in income	922	1,114
Depreciation of real estate and amortization of intangible assets exclusive of deferred financing fees	8,877	7,862
Depreciation and amortization from unconsolidated joint ventures	225	274
Preferred stock dividends	(4,409)	(1,478)
Funds from operations allocable to minority interest in Operating Partnership	(789)	(894)
Funds from operations allocable to minority interest in consolidated joint venture	<u>(769)</u>	<u>(897)</u>
FFO available to common shareholders	<u>\$ 18,303</u>	<u>\$ 18,735</u>

## 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 materially affect distributions to shareholders.

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## 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, 2003, 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 \$206 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.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The information required is incorporated by reference to the information appearing under the caption " Quantitative and Qualitative Disclosures About Market Risk " in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations" above.

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### **ITEM 4. controls and procedures**

As of June 30, 2003, an evaluation was performed under the supervision and with participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2003. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2003.

## **PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

No disclosure required.

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

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 Thursday May 15, 2003.

b.) Directors	Votes For	Votes Withheld
Robert J. Attea	11,396,706	358,402
Kenneth F. Myszka	11,396,802	358,306
John E. Burns	11,592,299	162,809
Michael A. Elia	11,591,786	163,322
Anthony P. Gammie	11,591,988	163,119
Charles E. Lannon	11,417,392	337,716

c.) Approval of amendment to the 1995 Outside Directors' Stock Option Plan.

Votes For	10,958,699
Votes Against	672,320
Abstentions	124,081
Broker Nonvotes	9

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d.) The ratification of the appointment of Ernst & Young LLP as independent auditors of the Company for the fiscal year ending December 31, 2003.

Votes For	11,629,836
Votes Against	69,382
Abstentions	55,887
Broker Nonvotes	4

**ITEM 5. OTHER INFORMATION**

No disclosure required.

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

(a) Exhibits:

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	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 filed subsequent to the second quarter of 2003

The Company furnished a Current Report on Form 8-K dated August 7, 2003, attaching a press release announcing earnings for the quarter ended June 30, 2003.

#### 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 11, 2003  
 Date

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#### Exhibit 31.1

Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert J. Attea, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sovran Self Storage, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and

presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2003

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



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**Exhibit 31.2**

Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David L. Rogers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sovran Self Storage, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2003

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



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Robert J. Attea  
Chairman of the Board  
Chief Executive Officer

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