

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 2018

Commission file number:
1-13820 (Life Storage, Inc.)
0-24071 (Life Storage LP)

**LIFE STORAGE, INC.
LIFE STORAGE LP**

(Exact name of Registrant as specified in its charter)

Maryland (Life Storage, Inc.)
Delaware (Life Storage LP)
(State or other jurisdiction of
incorporation or organization)

16-1194043
16-1481551
(I.R.S. Employer
Identification No.)

6467 Main Street
Williamsville, 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.

Life Storage, Inc. Yes No
Life Storage LP Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Life Storage, Inc. Yes No
Life Storage LP Yes No

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

Life Storage, Inc.:

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

Life Storage LP:

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Life Storage, Inc.
Life Storage LP

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

Life Storage, Inc. Yes No
Life Storage LP Yes No

As of July 19, 2018, 46,600,427 shares of Common Stock, \$.01 par value per share, were outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2018 of Life Storage, Inc. (the “Parent Company”) and Life Storage LP (the “Operating Partnership”). The Parent Company is a real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company.” In addition, terms such as “we,” “us,” or “our” used in this report may refer to the Company, the Parent Company and/or the Operating Partnership.

Life Storage Holdings, Inc., a wholly-owned subsidiary of the Parent Company (“Holdings”), is the sole general partner of the Operating Partnership; the Parent Company is a limited partner of the Operating Partnership, and through its ownership of Holdings and its limited partnership interest, controls the operations of the Operating Partnership, holding a 99.5% ownership interest therein as of June 30, 2018. The remaining ownership interests in the Operating Partnership are held by certain former owners of assets acquired by the Operating Partnership. As the owner of the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership’s day-to-day operations and management.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management teams of the Parent Company and the Operating Partnership are identical.

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

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

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

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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

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

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

Part I. Financial Information**Item 1. Financial Statements****LIFE STORAGE, INC.
CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except share data)	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Investment in storage facilities:		
Land	\$ 786,628	\$ 786,628
Building, equipment, and construction in progress	3,560,756	3,534,782
	<u>4,347,384</u>	<u>4,321,410</u>
Less: accumulated depreciation	(671,717)	(624,314)
Investment in storage facilities, net	3,675,667	3,697,096
Cash and cash equivalents	7,327	9,167
Accounts receivable	7,935	7,331
Receivable from unconsolidated joint ventures	994	1,397
Investment in unconsolidated joint ventures	133,225	133,458
Prepaid expenses	16,657	6,757
Fair value of interest rate swap agreements	177	205
Trade name	16,500	16,500
Other assets	4,487	4,863
Total Assets	<u>\$ 3,862,969</u>	<u>\$ 3,876,774</u>
Liabilities		
Line of credit	\$ 113,000	\$ 105,000
Term notes, net	1,610,062	1,609,089
Accounts payable and accrued liabilities	83,254	92,941
Deferred revenue	10,080	9,374
Mortgages payable	12,489	12,674
Total Liabilities	<u>1,828,885</u>	<u>1,829,078</u>
Noncontrolling redeemable Operating Partnership Units at redemption value	20,644	19,373
Shareholders' Equity		
Common stock \$.01 par value, 100,000,000 shares authorized, 46,599,927 shares outstanding at June 30, 2018 (46,552,222 at December 31, 2017)	466	466
Additional paid-in capital	2,368,942	2,363,171
Dividends in excess of net income	(348,764)	(327,727)
Accumulated other comprehensive loss	(7,204)	(7,587)
Total Shareholders' Equity	<u>2,013,440</u>	<u>2,028,323</u>
Noncontrolling interest in consolidated subsidiary	—	—
Total Equity	<u>2,013,440</u>	<u>2,028,323</u>
Total Liabilities and Shareholders' Equity	<u>\$ 3,862,969</u>	<u>\$ 3,876,774</u>

See notes to consolidated financial statements.

LIFE STORAGE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Rental income	\$ 125,892	\$ 120,646	\$ 247,516	\$ 239,240
Other operating income	12,116	12,138	23,586	21,865
Total operating revenues	138,008	132,784	271,102	261,105
Expenses				
Property operations and maintenance	29,787	29,719	60,236	59,515
Real estate taxes	15,643	14,498	31,061	28,933
General and administrative	11,728	15,959	23,771	27,396
Payments for rent	141	141	283	141
Depreciation and amortization	24,784	38,105	49,548	75,747
Total operating expenses	82,083	98,422	164,899	191,732
Income from operations	55,925	34,362	106,203	69,373
Other income (expenses)				
Interest expense	(17,518)	(15,716)	(34,722)	(30,926)
Interest income	2	1	6	4
Equity in income of joint ventures	1,048	785	2,020	1,506
Net income	39,457	19,432	73,507	39,957
Net income attributable to noncontrolling interest in the Operating Partnership	(183)	(77)	(344)	(172)
Net loss attributable to noncontrolling interest in consolidated subsidiary	—	—	—	—
Net income attributable to common shareholders	\$ 39,274	\$ 19,355	\$ 73,163	\$ 39,785
Earnings per common share attributable to common shareholders – basic	\$ 0.84	\$ 0.42	\$ 1.57	\$ 0.86
Earnings per common share attributable to common shareholders – diluted	\$ 0.84	\$ 0.42	\$ 1.57	\$ 0.86
Common shares used in basic earnings per share calculation	46,480,907	46,364,890	46,466,700	46,334,729
Common shares used in diluted earnings per share calculation	46,576,352	46,477,680	46,556,512	46,448,286
Dividends declared per common share	\$ 1.00	\$ 1.00	\$ 2.00	\$ 1.95

See notes to consolidated financial statements.

LIFE STORAGE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 39,457	\$ 19,432	\$ 73,507	\$ 39,957
Other comprehensive income:				
Effective portion of gain on derivatives net of reclassification to interest expense	106	237	383	1,859
Total comprehensive income	39,563	19,669	73,890	41,816
Comprehensive income attributable to noncontrolling interest in the Operating Partnership	(183)	(78)	(346)	(180)
Comprehensive loss attributable to noncontrolling interest in consolidated subsidiary	—	—	—	—
Comprehensive income attributable to common shareholders	\$ 39,380	\$ 19,591	\$ 73,544	\$ 41,636

See notes to consolidated financial statements.

LIFE STORAGE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(dollars in thousands)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Operating Activities		
Net income	\$ 73,507	\$ 39,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,548	75,747
Amortization of debt issuance costs and bond discount	1,781	1,663
Equity in income of joint ventures	(2,020)	(1,506)
Distributions from unconsolidated joint ventures	4,103	2,852
Non-vested stock earned	2,748	3,246
Stock option expense	7	8
Deferred income taxes	105	(2,832)
Changes in assets and liabilities (excluding the effects of acquisitions):		
Accounts receivable	(604)	(720)
Prepaid expenses	(9,900)	(2,045)
Receipts from joint ventures	403	201
Accounts payable and other liabilities	(9,718)	(8,023)
Deferred revenue	706	320
Net cash provided by operating activities	<u>110,666</u>	<u>108,868</u>
Investing Activities		
Acquisitions of storage facilities, net of cash acquired	—	(9,576)
Improvements, equipment additions, and construction in progress	(28,047)	(45,662)
Net proceeds from the sale of real estate	—	976
Investment in unconsolidated joint ventures	(1,862)	(66,590)
Property deposit	29	—
Net cash used in investing activities	<u>(29,880)</u>	<u>(120,852)</u>
Financing Activities		
Net proceeds from sale of common stock	3,045	9,760
Proceeds from line of credit	115,000	179,000
Repayments of line of credit	(107,000)	(101,000)
Dividends paid - common stock	(92,635)	(90,610)
Distributions to noncontrolling interest holders	(435)	(424)
Redemption of operating partnership units	(232)	—
Mortgage principal payments	(185)	(175)
Net cash used in financing activities	<u>(82,442)</u>	<u>(3,449)</u>
Net decrease in cash and restricted cash	(1,656)	(15,433)
Cash and restricted cash at beginning of period	9,459	23,923
Cash and restricted cash at end of period	<u>\$ 7,803</u>	<u>\$ 8,490</u>
Supplemental cash flow information		
Cash paid for interest, net of interest capitalized	\$ 34,406	\$ 30,624
Cash paid for income taxes, net of refunds	\$ 1,249	\$ 1,161

See notes to consolidated financial statements.

**LIFE STORAGE LP
CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Investment in storage facilities:		
Land	\$ 786,628	\$ 786,628
Building, equipment, and construction in progress	3,560,756	3,534,782
	<u>4,347,384</u>	<u>4,321,410</u>
Less: accumulated depreciation	(671,717)	(624,314)
Investment in storage facilities, net	3,675,667	3,697,096
Cash and cash equivalents	7,327	9,167
Accounts receivable	7,935	7,331
Receivable from unconsolidated joint ventures	994	1,397
Investment in unconsolidated joint ventures	133,225	133,458
Prepaid expenses	16,657	6,757
Fair value of interest rate swap agreements	177	205
Trade name	16,500	16,500
Other assets	4,487	4,863
Total Assets	<u>\$ 3,862,969</u>	<u>\$ 3,876,774</u>
Liabilities		
Line of credit	\$ 113,000	\$ 105,000
Term notes, net	1,610,062	1,609,089
Accounts payable and accrued liabilities	83,254	92,941
Deferred revenue	10,080	9,374
Mortgages payable	12,489	12,674
Total Liabilities	<u>1,828,885</u>	<u>1,829,078</u>
Limited partners' redeemable capital interest at redemption value (215,009 and 217,481 units outstanding at June 30, 2018 and December 31, 2017, respectively)	20,644	19,373
Partners' Capital		
General partner (468,174 and 467,697 units outstanding at June 30, 2018 and December 31, 2017, respectively)	20,343	20,478
Limited partners (46,131,753 and 46,084,525 units outstanding at June 30, 2018 and December 31, 2017, respectively)	2,000,301	2,015,432
Accumulated other comprehensive loss	(7,204)	(7,587)
Total Controlling Partners' Capital	<u>2,013,440</u>	<u>2,028,323</u>
Noncontrolling interest in consolidated subsidiary	—	—
Total Partners' Capital	<u>2,013,440</u>	<u>2,028,323</u>
Total Liabilities and Partners' Capital	<u>\$ 3,862,969</u>	<u>\$ 3,876,774</u>

See notes to consolidated financial statements.

LIFE STORAGE LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(dollars in thousands, except per unit data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Rental income	\$ 125,892	\$ 120,646	\$ 247,516	\$ 239,240
Other operating income	12,116	12,138	23,586	21,865
Total operating revenues	138,008	132,784	271,102	261,105
Expenses				
Property operations and maintenance	29,787	29,719	60,236	59,515
Real estate taxes	15,643	14,498	31,061	28,933
General and administrative	11,728	15,959	23,771	27,396
Payments for rent	141	141	283	141
Depreciation and amortization	24,784	38,105	49,548	75,747
Total operating expenses	82,083	98,422	164,899	191,732
Income from operations	55,925	34,362	106,203	69,373
Other income (expenses)				
Interest expense	(17,518)	(15,716)	(34,722)	(30,926)
Interest income	2	1	6	4
Equity in income of joint ventures	1,048	785	2,020	1,506
Net income	39,457	19,432	73,507	39,957
Net income attributable to noncontrolling interest in the Operating Partnership	(183)	(77)	(344)	(172)
Net loss attributable to noncontrolling interest in consolidated subsidiary	—	—	—	—
Net income attributable to common unitholders	\$ 39,274	\$ 19,355	\$ 73,163	\$ 39,785
Earnings per common unit attributable to common unitholders – basic	\$ 0.84	\$ 0.42	\$ 1.57	\$ 0.86
Earnings per common unit attributable to common unitholders – diluted	\$ 0.84	\$ 0.42	\$ 1.57	\$ 0.86
Common units used in basic earnings per unit calculation	46,480,907	46,364,890	46,466,700	46,334,729
Common units used in diluted earnings per unit calculation	46,576,352	46,477,680	46,556,512	46,448,286
Distributions declared per common unit	\$ 1.00	\$ 1.00	\$ 2.00	\$ 1.95
Net income attributable to general partner	\$ 395	\$ 194	\$ 735	\$ 400
Net income attributable to limited partners	38,879	19,161	72,428	39,385

See notes to consolidated financial statements.

LIFE STORAGE LP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 39,457	\$ 19,432	\$ 73,507	\$ 39,957
Other comprehensive income:				
Effective portion of gain on derivatives net of reclassification to interest expense	106	237	383	1,859
Total comprehensive income	39,563	19,669	73,890	41,816
Comprehensive income attributable to noncontrolling interest in the Operating Partnership	(183)	(78)	(346)	(180)
Comprehensive loss attributable to noncontrolling interest in consolidated subsidiary	—	—	—	—
Comprehensive income attributable to common unitholders	\$ 39,380	\$ 19,591	\$ 73,544	\$ 41,636

See notes to consolidated financial statements.

LIFE STORAGE LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(dollars in thousands)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Operating Activities		
Net income	\$ 73,507	\$ 39,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,548	75,747
Amortization of debt issuance costs and bond discount	1,781	1,663
Equity in income of joint ventures	(2,020)	(1,506)
Distributions from unconsolidated joint ventures	4,103	2,852
Non-vested stock earned	2,748	3,246
Stock option expense	7	8
Deferred income taxes	105	(2,832)
Changes in assets and liabilities (excluding the effects of acquisitions):		
Accounts receivable	(604)	(720)
Prepaid expenses	(9,900)	(2,045)
Receipts from joint ventures	403	201
Accounts payable and other liabilities	(9,718)	(8,023)
Deferred revenue	706	320
Net cash provided by operating activities	<u>110,666</u>	<u>108,868</u>
Investing Activities		
Acquisitions of storage facilities, net of cash acquired	—	(9,576)
Improvements, equipment additions, and construction in progress	(28,047)	(45,662)
Net proceeds from the sale of real estate	—	976
Investment in unconsolidated joint ventures	(1,862)	(66,590)
Property deposit	29	—
Net cash used in investing activities	<u>(29,880)</u>	<u>(120,852)</u>
Financing Activities		
Net proceeds from sale of partnership units	3,045	9,760
Proceeds from line of credit	115,000	179,000
Repayments of line of credit	(107,000)	(101,000)
Distributions to unitholders	(92,635)	(90,610)
Distributions to noncontrolling interest holders	(435)	(424)
Redemption of operating partnership units	(232)	—
Mortgage principal payments	(185)	(175)
Net cash used in financing activities	<u>(82,442)</u>	<u>(3,449)</u>
Net decrease in cash and restricted cash	(1,656)	(15,433)
Cash and restricted cash at beginning of period	9,459	23,923
Cash and restricted cash at end of period	<u>\$ 7,803</u>	<u>\$ 8,490</u>
Supplemental cash flow information		
Cash paid for interest, net of interest capitalized	\$ 34,406	\$ 30,624
Cash paid for income taxes, net of refunds	\$ 1,249	\$ 1,161

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Life Storage, Inc. (the “Parent Company”) and Life Storage LP (the “Operating Partnership”) 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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

2. ORGANIZATION

The Parent Company operates as a self-administered and self-managed real estate investment trust (a “REIT”) that owns and operates self-storage facilities throughout the United States. All of the Parent Company’s assets are owned by, and all its operations are conducted through, the Operating Partnership. Life Storage Holdings, Inc., a wholly-owned subsidiary of the Parent Company (“Holdings”), is the sole general partner of the Operating Partnership; the Parent Company is a limited partner of the Operating Partnership, and, through its ownership of Holdings and its limited partnership interest, controls the operations of the Operating Partnership, holding a 99.5% ownership interest therein as of June 30, 2018. The remaining ownership interests in the Operating Partnership (the “Units”) are held by certain former owners of assets acquired by the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company.” In addition, terms such as “we,” “us,” or “our” used in this report may refer to the Company, the Parent Company and/or the Operating Partnership.

At June 30, 2018, we had an ownership interest in, and/or managed 718 self-storage properties in 28 states under the name Life Storage®. Among our 718 self-storage properties are 98 properties that we manage for unconsolidated joint ventures (see Note 10) and 54 properties that we manage and have no ownership interest.

We consolidate all wholly-owned subsidiaries and joint ventures are consolidated when we control the entity. Our consolidated financial statements include the accounts of the Parent Company, the Operating Partnership, Life Storage Solutions, LLC (the Parent Company’s taxable REIT subsidiary), Warehouse Anywhere LLC (an entity owned 60% by Life Storage Solutions, LLC), and all other wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated. Investments in joint ventures that we do not control but for which we have significant influence over are accounted for using the equity method.

Included in the Parent Company’s consolidated balance sheets are noncontrolling redeemable Operating Partnership Units and included in the Operating Partnership’s consolidated balance sheets are limited partners’ redeemable capital interest at redemption value. These interests are presented in the “mezzanine” section of the consolidated balance sheet because they do not meet the functional definition of a liability or equity under current accounting literature. These represent the outside ownership interests of the limited partners in the Operating Partnership. There were 215,009 and 217,481 noncontrolling redeemable Operating Partnership Units outstanding at June 30, 2018 and December 31, 2017, respectively. These unitholders are entitled to receive distributions per unit equivalent to the dividends declared per share on the Parent Company’s common stock. The Operating Partnership is obligated to redeem each of these limited partnership units in the Operating Partnership at the request of the holder thereof for cash equal to the fair market value of a share of the Parent Company’s common stock based on a 10-day average of the daily market price, at the time of such redemption, provided that the Company at its option may elect to acquire any such Unit presented for redemption for one common share or cash. The Company accounts for these noncontrolling redeemable Operating Partnership Units under the provisions of Accounting Standards Codification (ASC) Topic 480-10-S99. The application of the ASC Topic 480-10-S99 accounting model requires the noncontrolling interest to follow normal noncontrolling interest accounting and then be marked to redemption value at the end of each reporting period if higher (but never adjusted below that normal noncontrolling interest accounting amount). The offset to the adjustment to the carrying amount of the noncontrolling interests is reflected in the Company’s dividends in excess of net income and in the Operating Partnership’s general partner and limited partners capital balances. Accordingly, in the accompanying consolidated balance sheets, noncontrolling interests are reflected at redemption value at June 30, 2018 and December 31, 2017, equal to the number of noncontrolling interest units outstanding multiplied by the fair market value of the Parent Company’s common stock at that date. Redemption value exceeded the value determined under the Company’s historical basis of accounting at those dates.

The following is a reconciliation of the Parent Company’s noncontrolling redeemable Operating Partnership Units and the Operating Partnership’s limited partners’ redeemable capital interest for the period:

<u>(dollars in thousands)</u>	<u>Six Months Ended June 30, 2018</u>
Beginning balance	\$ 19,373
Redemption of units	(203)
Net income attributable to noncontrolling interest in the Operating Partnership	344
Distributions	(435)
Adjustment to redemption value	1,565
Ending balance	<u>\$ 20,644</u>

The disaggregated revenues of the Company presented in accordance with ASC Topic 606 “Revenue from Contracts with Customers” are as follows:

<u>(dollars in thousands)</u>	<u>Three Months Ended June 30, 2018</u>	<u>Three Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2018</u>	<u>Six Months Ended June 30, 2017</u>
Rental income	\$ 125,892	\$ 120,646	\$ 247,516	\$ 239,240
Management and acquisition fee income	2,546	3,183	4,941	5,001
Revenues related to tenant insurance	5,768	5,622	11,485	10,974
Other	3,802	3,333	7,160	5,890
Total operating revenues	<u>\$ 138,008</u>	<u>\$ 132,784</u>	<u>\$ 271,102</u>	<u>\$ 261,105</u>

Revenues related to tenant insurance and management and acquisition fee income are included in other operating income in the consolidated statements of operations.

During 2018, approximately 22% and 13% of the Company’s revenue was derived from self-storage facilities in the states of Texas and Florida, respectively.

3. STOCK BASED COMPENSATION

The Company accounts for stock-based compensation under the provisions of ASC Topic 718, “Compensation - Stock Compensation”. The Company recognizes compensation cost in its financial statements for all share based payments granted, modified, or settled during the period.

For awards with graded vesting, compensation cost is recognized on a straight-line basis over the related vesting period.

For the three months ended June 30, 2018 and 2017, the Company recorded compensation expense (included in general and administrative expense) of \$3,000 and \$4,000, respectively, related to stock options and \$1,252,000 and \$1,657,000, respectively, related to amortization of non-vested stock grants and performance-based awards. For the six months ended June 30, 2018 and 2017, the Company recorded compensation expense of \$7,000 and \$8,000, respectively, related to stock options and \$2,748,000 and \$3,246,000, respectively, related to amortization of non-vested stock grants and performance-based awards.

During the three and six months ended June 30, 2018, 71,606 stock options were exercised by employees and directors. No stock options were exercised by employees and directors during the three and six months ended June 30, 2017. During the three months ended June 30, 2018 and 2017, 3,762 and 2,239 shares of non-vested stock, respectively, vested. During the six months ended June 30, 2018 and 2017, 39,953 and 47,028 shares of non-vested stock, respectively, vested.

During the six months ended June 30, 2018, the Company issued 14,865 shares of non-vested stock to certain employees and non-employee directors which vest over periods ranging from one year to eight years. The fair market value on the date of grant of the non-vested stock issued during the six months ended June 30, 2018 ranged from \$81.86 to \$94.08, resulting in an aggregate fair value of \$1.4 million.

During the six months ended June 30, 2018, the Company granted performance-based awards that entitle the recipient to earn up to 6,766 shares if certain performance criteria are achieved over a three-year period. The Company estimated the aggregate fair value of the awards on the grant date to be \$0.3 million.

4. CASH AND RESTRICTED CASH

Restricted cash represents those amounts required to be placed in escrow by banks with whom the Company has entered into mortgages and is included in other assets in the consolidated balance sheets. The following table provides a reconciliation of cash and restricted cash reported within the consolidated statement of cash flows:

<u>(Dollars in thousands)</u>	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>June 30,</u> <u>2017</u>
Cash	\$ 7,327	\$ 9,167	\$ 7,998
Restricted cash	476	292	492
Total cash and restricted cash	<u>7,803</u>	<u>9,459</u>	<u>8,490</u>

5. INVESTMENT IN STORAGE FACILITIES AND INTANGIBLE ASSETS

The following summarizes our activity in storage facilities during the six months ended June 30, 2018:

<u>(dollars in thousands)</u>	
<u>Cost:</u>	
Beginning balance	\$ 4,321,410
Improvements and equipment additions	14,123
Net increase in construction in progress	14,040
Dispositions	(2,189)
Ending balance	<u>\$ 4,347,384</u>
<u>Accumulated Depreciation:</u>	
Beginning balance	\$ 624,314
Additions during the period	49,557
Dispositions	(2,154)
Ending balance	<u>\$ 671,717</u>

We did not acquire any self-storage facilities during the six months ended June 30, 2018.

The Company measures the fair value of in-place customer lease intangible assets based on the Company's experience with customer turnover and the cost to replace the in-place leases. The Company amortizes in-place customer leases on a straight-line basis over 12 months (the estimated future benefit period). The Company measures the value of trade names, which have an indefinite life and are not amortized, by calculating discounted cash flows utilizing the relief from royalty method.

In-place customer leases are included in other assets on the Company's consolidated balance sheets as follows:

<u>(Dollars in thousands)</u>	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
In-place customer leases	\$ 75,241	\$ 75,241
Accumulated amortization	(75,241)	(75,241)
Net carrying value at the end of period	<u>—</u>	<u>—</u>

Amortization expense related to in-place customer leases was \$11.9 million and \$24.7 million for the three and six months ended June 30, 2017, respectively. The Company did not record any amortization expense during the three and six months ended June 30, 2018 as all in-place customer leases were fully amortized at the beginning of the period.

Change in Useful Life Estimates

As part of the Company's capital improvement efforts during 2017 and 2018, buildings at certain self-storage facilities were identified for replacement. As a result of the decision to replace these buildings, the Company reassessed the estimated useful lives of the then existing buildings. This useful life reassessment resulted in an increase in depreciation expense of approximately \$0.3 million during

the six months ended June 30, 2018 and \$1.4 million and \$1.5 million, respectively, during the three and six months ended June 30, 2017. There was de minimis impact on the three months ended June 30, 2018. The Company estimates that the change in estimated useful lives of buildings identified for replacement as of June 30, 2018 will have minimal additional impact on depreciation expense during the remainder of 2018.

The accelerated depreciation resulting from the events discussed above reduced both basic and diluted earnings per share/unit by approximately \$0.01, respectively, for the six month period ended June 30, 2018 and by approximately \$0.03 for both the three and six months ended June 30, 2017.

6. UNSECURED LINE OF CREDIT AND TERM NOTES

Borrowings outstanding on our unsecured line of credit and term notes are as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Revolving line of credit borrowings	\$ 113,000	\$ 105,000
Term note due June 4, 2020	100,000	100,000
Term note due August 5, 2021	100,000	100,000
Term note due April 8, 2024	175,000	175,000
Senior term note due July 1, 2026	600,000	600,000
Senior term note due December 15, 2027	450,000	450,000
Term note due July 21, 2028	200,000	200,000
Total term note principal balance outstanding	<u>\$ 1,625,000</u>	<u>\$ 1,625,000</u>
Less: unamortized debt issuance costs	(10,262)	(10,962)
Less: unamortized senior term note discount	<u>(4,676)</u>	<u>(4,949)</u>
Term notes payable	<u>\$ 1,610,062</u>	<u>\$ 1,609,089</u>

The Company's unsecured amended credit agreement includes a revolving credit facility with a limit of \$500 million. The interest rate on the revolving credit facility bears interest at a variable annual rate equal to LIBOR plus a margin based on the Company's credit rating (at June 30, 2018 the margin is 1.10%), and requires an annual 0.15% facility fee. The interest rate at June 30, 2018 on the Company's line of credit was approximately 3.19% (2.63% at December 31, 2017). At June 30, 2018, there was \$386.2 million available on the unsecured revolving line of credit. The revolving line of credit has a maturity date of December 10, 2019. The Company's unsecured credit agreement also includes an unsecured term note maturing June 4, 2020, which term note was initially in the principal amount of \$325 million. In 2017, the Company repaid \$225 million under this term note, resulting in \$100 million outstanding at June 30, 2018. The term note bears interest at LIBOR plus a margin based on the Company's credit rating (at June 30, 2018 the margin is 1.15%). The interest rate at June 30, 2018 on the term note was approximately 3.15% (2.53% at December 31, 2017).

On December 7, 2017, the Operating Partnership issued \$450 million in aggregate principal amount of 3.875% unsecured senior notes due December 15, 2027 (the "2027 Senior Notes"). The 2027 Senior Notes were issued at a 0.477% discount to par value. Interest on the 2027 Senior Notes is payable semi-annually on each June 15 and December 15, beginning on June 15, 2018. The 2027 Senior Notes are fully and unconditionally guaranteed by the Parent Company. Proceeds received upon issuance, net of discount to par of \$2.1 million and underwriting discount and other offering expenses of \$4.0 million, totaled \$443.9 million.

On June 20, 2016, the Operating Partnership issued \$600 million in aggregate principal amount of 3.50% unsecured senior notes due July 1, 2026 (the "2026 Senior Notes"). The 2026 Senior Notes were issued at a 0.553% discount to par value. Interest on the 2026 Senior Notes is payable semi-annually in arrears on each January 1 and July 1. The 2026 Senior Notes are fully and unconditionally guaranteed by the Parent Company. Proceeds received upon issuance, net of discount to par of \$3.3 million and underwriting discount and other offering expenses of \$5.5 million, totaled \$591.2 million.

The indenture under which the 2027 Senior Notes and the 2026 Senior Notes were issued restricts the ability of the Company and its subsidiaries to incur debt unless the Company and its consolidated subsidiaries comply with a leverage ratio not to exceed 60% and an interest coverage ratio of more than 1.5:1 on all outstanding debt, after giving effect to the incurrence of the debt. The indenture also restricts the ability of the Company and its subsidiaries to incur secured debt unless the Company and its consolidated subsidiaries comply with a secured debt leverage ratio not to exceed 40% after giving effect to the incurrence of the debt. The indenture also contains other financial and customary covenants, including a covenant not to own unencumbered assets with a value less than 150% of the unsecured indebtedness of the Company and its consolidated subsidiaries. At June 30, 2018, the Company was in compliance with such covenants.

On July 21, 2016, the Company entered into a \$200 million term note maturing July 21, 2028 bearing interest at a fixed rate of 3.67%.

On April 8, 2014, the Company entered into a \$175 million term note maturing April 8, 2024 bearing interest at a fixed rate of 4.533%. The interest rate on the term note increases to 6.283% if the Company is not rated by at least one rating agency or if the Company's credit rating is downgraded.

In 2011, the Company entered into a \$100 million term note maturing August 5, 2021 bearing interest at a fixed rate of 5.54%. The interest rate on the term note increases to 7.29% if the notes are not rated by at least one rating agency, the credit rating on the notes is downgraded or if the Company's credit rating is downgraded.

The line of credit and term notes require the Company to meet certain financial covenants, measured on a quarterly basis, including prescribed leverage, fixed charge coverage, minimum net worth, limitations on additional indebtedness and limitations on dividend payouts. At June 30, 2018, the Company was in compliance with such covenants.

We believe that if operating results remain consistent with historical levels and levels of other debt and liabilities remain consistent with amounts outstanding at June 30, 2018, the entire availability on the line of credit could be drawn without violating our debt covenants.

The Company's fixed rate term notes contain a provision that allows for the noteholders to call the debt upon a change of control of the Company at an amount that includes a make whole premium based on rates in effect on the date of the change of control.

Deferred debt issuance costs and the discount on the outstanding term notes are both presented as reductions of term notes in the accompanying consolidated balance sheets at June 30, 2018 and December 31, 2017. Amortization expense related to deferred debt issuance costs was \$0.5 million for each of the three months ended June 30, 2018 and 2017, and \$1.0 million for each of the six months ended June 30, 2018 and 2017, and is included in interest expense in the consolidated statements of operations.

7. MORTGAGES PAYABLE AND DEBT MATURITIES

Mortgages payable at June 30, 2018 and December 31, 2017 consist of the following:

<u>(dollars in thousands)</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
4.98% mortgage note due January 1, 2021, secured by one self-storage facility with an aggregate net book value of \$9.5 million, principal and interest paid monthly (effective interest rate 5.22%)	\$ 2,890	\$ 2,916
4.065% mortgage note due April 1, 2023, secured by one self-storage facility with an aggregate net book value of \$7.5 million, principal and interest paid monthly (effective interest rate 4.30%)	4,073	4,119
5.26% mortgage note due November 1, 2023, secured by one self-storage facility with an aggregate net book value of \$8.0 million, principal and interest paid monthly (effective interest rate 5.56%)	3,905	3,939
5.99% mortgage note due May 1, 2026, secured by one self-storage facility with an aggregate net book value of \$6.5 million, principal and interest paid monthly (effective interest rate 6.29%)	1,621	1,700
Total mortgages payable	\$ 12,489	\$ 12,674

The table below summarizes the Company's debt obligations at June 30, 2018. The estimated fair value of financial instruments is subjective in nature and is dependent on a number of important assumptions, including discount rates and relevant comparable market information associated with each financial instrument. The fair value of the fixed rate term notes and mortgage notes were estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. These assumptions are considered Level 2 inputs within the fair value hierarchy as described in Note 9. The carrying values of our variable rate debt instruments approximate their fair values as these debt instruments bear interest at current market rates that approximate market participant rates. This is considered a Level 2 input within the fair value hierarchy. The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company would realize in a current market exchange.

(dollars in thousands)	Expected Maturity Date Including Discount						Total	Fair Value
	2018	2019	2020	2021	2022	Thereafter		
Line of credit - variable rate LIBOR + 1.10% (3.19% at June 30, 2018)	—	\$ 113,000	—	—	—	—	\$ 113,000	\$ 113,000
Notes Payable:								
Term note - variable rate LIBOR+1.15% (3.15% at June 30, 2018)	—	—	\$ 100,000	—	—	—	\$ 100,000	\$ 100,000
Term note - fixed rate 5.54%	—	—	—	\$ 100,000	—	—	\$ 100,000	\$ 105,217
Term note - fixed rate 4.533%	—	—	—	—	—	\$ 175,000	\$ 175,000	\$ 177,784
Term note - fixed rate 3.50%	—	—	—	—	—	\$ 600,000	\$ 600,000	\$ 565,717
Term note - fixed rate 3.875%	—	—	—	—	—	\$ 450,000	\$ 450,000	\$ 425,118
Term note - fixed rate 3.67%	—	—	—	—	—	\$ 200,000	\$ 200,000	\$ 181,530
Mortgage note - fixed rate 4.98%	\$ 27	\$ 56	\$ 59	\$ 2,748	—	—	\$ 2,890	\$ 2,913
Mortgage note - fixed rate 4.065%	\$ 45	\$ 96	\$ 99	\$ 104	\$ 108	\$ 3,621	\$ 4,073	\$ 3,961
Mortgage note - fixed rate 5.26%	\$ 34	\$ 71	\$ 74	\$ 78	\$ 83	\$ 3,565	\$ 3,905	\$ 4,001
Mortgage note - fixed rate 5.99%	\$ 81	\$ 170	\$ 181	\$ 192	\$ 203	\$ 794	\$ 1,621	\$ 1,694
Total	\$ 187	\$ 113,393	\$ 100,413	\$ 103,122	\$ 394	\$ 1,432,980	\$ 1,750,489	

8. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable interest rates. The interest rate swaps require the Company to pay an amount equal to a specific fixed rate of interest times a notional principal amount and to receive in return an amount equal to a variable rate of interest times the same notional amount. The notional amounts are not exchanged. Forward starting interest rate swaps are also used by the Company to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. No other cash payments are made unless the contract is terminated prior to its maturity, in which case the contract would likely be settled for an amount equal to its fair value. The Company enters into interest rate swaps with a number of major financial institutions to minimize counterparty credit risk.

Interest rate swaps qualify and are designated as hedges of the amount of future cash flows related to interest payments on variable rate debt. Therefore, interest rate swaps are recorded in the consolidated balance sheets at fair value and the related gains or losses are deferred in shareholders' equity or partners' capital as Accumulated Other Comprehensive Loss ("AOCL"). These deferred gains and losses are recognized in interest expense during the period or periods in which the related interest payments affect earnings. However, to the extent that the interest rate swaps are not perfectly effective in offsetting the change in value of the interest payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was de minimis for the three and six months ended June 30, 2018 and 2017.

The Company has interest rate swap agreements in effect at June 30, 2018 as detailed below to effectively convert a total of \$100 million of variable-rate debt to fixed-rate debt.

Notional Amount	Effective Date	Expiration Date	Fixed Rate Paid	Floating Rate Received
\$100 Million	9/4/13	9/4/18	1.3710%	1 month LIBOR

In 2017, the Company terminated hedges and settled interest rate swap agreements on \$225 million of the Company's variable rate debt in connection with repayment of the related variable rate term notes. As a result of the termination, no gains or losses related to the terminated interest rate swaps are included in AOCL at June 30, 2018 or December 31, 2017.

In the fourth quarter of 2015, the Company entered into forward starting interest rate swap agreements with a total notional value of \$50 million. In the first quarter of 2016, the Company entered into additional forward starting interest rate swap agreements with a total notional value of \$100 million. These forward starting interest rate swap agreements were entered into to hedge the risk of changes in the interest-related cash flows associated with the potential issuance of fixed rate long-term debt. In conjunction with the issuance of the \$600 million 2026 Senior Notes (see Note 6), the Company terminated these hedges and settled the forward starting swap agreements for approximately \$9.2 million. The \$9.2 million has been deferred in AOCL and is being amortized as additional interest expense over the ten-year term of the \$600 million 2026 Senior Notes or until such time as interest payments on the 2026 Senior Notes are no longer probable.

The interest rate swap agreements are the only derivative instruments, as defined by FASB ASC Topic 815 "*Derivatives and Hedging*", held by the Company at June 30, 2018. During the three months ended June 30, 2018 and 2017, the net reclassification from AOCL to interest expense was (\$0.1 million) and \$0.7 million, respectively, based on payments received and made under the swap agreements. During the six months ended June 30, 2018 and 2017, the net reclassification from AOCL to interest expense was (\$0.1 million) and \$1.6 million, respectively, based on payments received and made under the swap agreements. Based on current interest rates, the Company estimates that payments received under the interest rate swaps for the 12 months ended June 30, 2019 would be de minimis. Payments made or received under the interest rate swap agreements will be reclassified to interest expense as swap settlement occurs. The fair value of the swap agreements, including accrued interest, was an asset of \$0.2 million at both June 30, 2018 and December 31, 2017.

The Company's agreements with its interest rate swap counterparties contain provisions pursuant to which the Company could be declared in default of its derivative obligations, if any, if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender. The interest rate swap agreements also incorporate other loan covenants of the Company. Failure to comply with the loan covenant provisions would result in the Company being in default on the interest rate swap agreements. As of June 30, 2018, the Company had not posted any collateral related to the interest rate swap agreements.

The changes in AOCL for the three and six months ended June 30, 2018 and 2017 are summarized as follows:

(dollars in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Accumulated other comprehensive loss beginning of period	\$ (7,310)	\$ (19,853)	\$ (7,587)	\$ (21,475)
Realized loss reclassified from accumulated other comprehensive loss to interest expense	113	956	309	2,076
Unrealized (loss) gain from changes in the fair value of the effective portion of the interest rate swaps	(7)	(719)	74	(217)
Gain included in other comprehensive loss	106	237	383	1,859
Accumulated other comprehensive loss end of period	<u>\$ (7,204)</u>	<u>\$ (19,616)</u>	<u>\$ (7,204)</u>	<u>\$ (19,616)</u>

9. FAIR VALUE MEASUREMENTS

The Company applies the provisions of ASC Topic 820 "*Fair Value Measurements and Disclosures*" in determining the fair value of its financial and nonfinancial assets and liabilities. ASC Topic 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Refer to Note 7 for presentation of the fair values of debt obligations which are disclosed at fair value on a recurring basis.

The following table provides the assets carried at fair value measured on a recurring basis as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	Asset (Liability)	Level 1	Level 2	Level 3
June 30, 2018				
Interest rate swaps	\$ 177	—	\$ 177	—
December 31, 2017				
Interest rate swaps	\$ 205	—	\$ 205	—

Interest rate swaps are over the counter securities with no quoted readily available Level 1 inputs, and therefore are measured at fair value using inputs that are directly observable in active markets and are classified within Level 2 of the valuation hierarchy, using the income approach.

10. INVESTMENT IN JOINT VENTURES

A summary of the Company's unconsolidated joint ventures is as follows:

Venture	Number of Properties at June 30, 2018	Company common ownership interest at June 30, 2018	Carrying value of investment at June 30, 2018	Carrying value of investment at Dec. 31, 2017
Sovran HHF Storage Holdings LLC ("Sovran HHF") ¹	57	20%	\$84.0 million	\$85.1 million
Sovran HHF Storage Holdings II LLC ("Sovran HHF II") ²	30	15%	\$13.2 million	\$13.3 million
191 III Holdings LLC ("191 III") ³	6	20%	\$9.3 million	\$9.4 million
Life Storage-SERS Storage LLC ("SERS") ⁴	3	20%	\$3.6 million	\$3.6 million
Iskalo Office Holdings, LLC ("Iskalo") ⁵	N/A	49%	(\$0.4 million)	(\$0.4 million)
Urban Box Coralway Storage, LLC ("Urban Box") ⁶	1	85%	\$4.4 million	\$4.1 million
SNL/Orix 1200 McDonald Ave., LLC ("McDonald") ⁷	1	5%	\$2.7 million	\$2.7 million
SNL Orix Merrick, LLC ("Merrick") ⁸	1	5%	\$2.4 million	\$2.5 million
Review Avenue Partners, LLC ("RAP") ⁹	1	40%	\$11.3 million	\$11.5 million
N 32nd Street Self Storage, LLC ("N32") ¹⁰	1	46%	\$1.3 million	\$1.3 million
NYX Don Mills Storage LP ("Don Mills") ¹¹	1	17%	\$1.0 million	N/A

- 1 Sovran HHF owns self-storage facilities in Arizona (11), Colorado (4), Florida (3), Georgia (1), Kentucky (2), Nevada (5), New Jersey (2), Ohio (6), Pennsylvania (1), Tennessee (2) and Texas (20). In June 2017, Sovran HHF acquired 18 self-storage facilities for \$330 million in Arizona, Nevada and Tennessee. In connection with this acquisition, Sovran HHF entered into \$135 million of mortgage debt which is secured by 16 of the self-storage facilities acquired. During the six months ended June 30, 2018, the Company contributed \$0.2 million as its share of capital to the joint venture. During the six months ended June 30, 2018, the Company received \$2.7 million of distributions from Sovran HHF. As of June 30, 2018, the carrying value of the Company's investment in Sovran HHF exceeds its share of the underlying equity in net assets of Sovran HHF by approximately \$1.7 million as a result of the capitalization of certain acquisition related costs in 2008. This difference is included in the carrying value of the investment.
- 2 Sovran HHF II owns self-storage facilities in New Jersey (17), Pennsylvania (3), and Texas (10). During the six months ended June 30, 2018, the Company received \$1.0 million of distributions from Sovran HHF II.
- 3 191 III owns six self-storage facilities in California. During 2017, 191 III acquired these six self-storage facilities for a total of \$104.1 million. In connection with the acquisition of these self-storage facilities, 191 III entered into \$57.2 million of mortgage debt which is secured by the self-storage facilities acquired. During six months ended June 30, 2018, the Company contributed 0.1 million as its share of capital to the joint venture. During the six months ended June 30, 2018, the Company received \$0.2 million of distributions from 191 III.
- 4 SERS owns three self-storage facilities in Georgia. During 2017, SERS acquired these three self-storage facilities for a total of \$39.1 million. In connection with the acquisition of these self-storage facilities, SERS entered into \$22.0 million of mortgage debt which is secured by the self-storage facilities acquired. During the six months ended June 30, 2018, Company contributions made to SERS and distributions received from SERS were minimal.

- 5 Iskalo owns the building that houses the Company's headquarters and other tenants. The Company paid rent to Iskalo of \$0.6 million during each of the six months ended June 30, 2018 and 2017. During the six months ended June 30, 2018, the Company received \$0.1 million of distributions from Iskalo.
- 6 Urban Box is currently developing a self-storage facility in Florida which is expected to be completed in 2018. During the six months ended June 30, 2018, the Company contributed \$0.3 million to Urban Box as its share of capital to the joint venture.
- 7 McDonald is currently developing a self-storage facility in New York which is expected to be completed in 2018. McDonald has entered into a non-recourse mortgage loan with \$8.6 million of principal outstanding at June 30, 2018.
- 8 Merrick owns a self-storage facility in New York. Merrick has entered into a non-recourse mortgage loan with \$11.3 million of principal outstanding at June 30, 2018.
- 9 RAP owns a self-storage facility in New York. The Company contributed \$0.2 million of common capital to RAP during the six months ended June 30, 2018.
- 10 N32 developed a self-storage facility in Arizona which was completed and began operations in July 2018.
- 11 Don Mills is developing a self-storage facility in Ontario, Canada which is expected to be completed in 2020. The Company entered into the Don Mills joint venture during the second quarter of 2018 and contributed \$1.0 million of common capital to Don Mills during the six months ended June 30, 2018 as the Company's share of the initial capital investment in the joint venture.

Based on the facts and circumstances of each of the Company's joint ventures, the Company has determined that none of the joint ventures is a variable interest entity (VIE) in accordance with ASC 810, *Consolidation*. As a result, the Company used the voting model under ASC 810 to determine whether or not to consolidate the joint ventures. Based upon each member's substantive participation rights over the activities as stipulated in the joint venture agreements, none of the joint ventures is consolidated by the Company. Due to the Company's significant influence over the operations of each of the joint ventures, all joint ventures are accounted for under the equity method of accounting.

The carrying values of the Company's investments in joint ventures are assessed for other-than-temporary impairment on a periodic basis and no such impairments have been recorded on any of the Company's investments in joint ventures.

The Company earns management and/or call center fees ranging from 6% to 7% of joint venture gross revenues as property manager of the self-storage facilities owned by HHF, HHF II, 191 III, SERS, RAP and Merrick. These fees, which are included in other operating income in the consolidated statements of operations, totaled \$1.9 million and \$1.5 million for the three months ended June 30, 2018 and 2017, respectively, and \$3.8 million and \$2.9 million for the six months ended June 30, 2018 and 2017, respectively. The Company will also earn management fees as property manager upon commencement of the operation of storage facilities owned by Urban Box, McDonald, and N32.

The Company's share of the unconsolidated joint ventures' income (loss) is as follows:

(dollars in thousands) Venture	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Sovran HHF	\$ 739	\$ 624	\$ 1,428	\$ 1,162
Sovran HHF II	432	362	800	702
191 III	18	(10)	36	25
SERS	25	—	86	—
RAP	(217)	(255)	(432)	(501)
Merrick	(16)	—	(32)	—
Iskalo	67	64	134	118
	<u>\$ 1,048</u>	<u>\$ 785</u>	<u>\$ 2,020</u>	<u>\$ 1,506</u>

A summary of the unconsolidated joint ventures' financial statements as of and for the six months ended June 30, 2018 is as follows:

(dollars in thousands)	
<u>Balance Sheet Data:</u>	
Investment in storage facilities, net	\$ 1,076,193
Investment in office building, net	4,712
Other assets	20,821
Total Assets	\$ 1,101,726
Due to the Company	\$ 994
Mortgages payable	468,606
Other liabilities	8,290
Total Liabilities	\$ 477,890
Unaffiliated partners' equity	491,003
Company equity	132,833
Total Partners' Equity	623,836
Total Liabilities and Partners' Equity	\$ 1,101,726
<u>Income Statement Data:</u>	
Total revenues	\$ 55,627
Property operating expenses	(17,295)
Administrative, management and call center fees	(4,314)
Depreciation and amortization of customer list	(12,822)
Amortization of financing fees	(653)
Income tax expense	(155)
Interest expense	(8,716)
Net income	\$ 11,672

The Company does not guarantee the debt of any of its equity method investees.

We do not expect to have material future cash outlays relating to these joint ventures outside of our share of capital for future acquisitions of properties and our share of the payoff of secured debt held by these joint ventures.

11. INCOME TAXES

The Company qualifies as a REIT under the Internal Revenue Code of 1986, as amended, and will generally not be subject to corporate income taxes to the extent it distributes its taxable income to its shareholders and complies with certain other requirements.

The Company has elected to treat one of its subsidiaries as a taxable REIT subsidiary. In general, the Company's taxable REIT subsidiary may perform additional services for tenants and generally may engage in certain real estate or non-real estate related business. A taxable REIT subsidiary is subject to corporate federal and state income taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities.

The Company recorded federal and state income tax expense of \$0.7 million for the three months ended June 30, 2018 and federal and state income tax benefit of \$2.5 million for the three months ended June 30, 2017. The Company recorded federal and state income tax expense of \$1.2 million for the six months ended June 30, 2018 and federal and state income tax benefit of \$2.2 million for the six months ended June 30, 2017. At June 30, 2018 and 2017, there were no material unrecognized tax benefits. Interest and penalties relating to uncertain tax positions will be recognized in income tax expense when incurred. As of June 30, 2018 and 2017, the Company had no interest or penalties related to uncertain tax positions. Income taxes payable at June 30, 2018 and December 31, 2017 are classified within accounts payable and accrued liabilities in the consolidated balance sheets. Prepaid income taxes at June 30, 2018 and December 31, 2017 are classified within prepaid expenses, while the net deferred tax assets of our taxable REIT subsidiary at June 30, 2018 and December 31, 2017 are classified within other assets in the consolidated balance sheets. As of June 30, 2018, the Company's taxable REIT subsidiary has prepaid taxes of \$0.2 million, deferred tax assets totaling \$3.4 million, and a deferred tax liability of \$1.6 million. As of December 31, 2017, the Company's taxable REIT subsidiary has prepaid taxes of \$0.1 million, deferred tax assets of \$3.6 million and a deferred tax liability of \$1.7 million. The tax years 2013-2017 remain open to examination by the major taxing jurisdictions to which the Company is subject.

The Tax Cuts and Jobs Act (the “TCJA”) was passed by Congress on December 20, 2017 and signed into law by President Trump on December 22, 2017. The TCJA significantly changed the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their shareholders. Under the TCJA, the corporate income tax rate is reduced from a maximum rate of 35% to a flat 21% rate. The reduced corporate income tax rate, which is effective for taxable years beginning after December 31, 2017, applies to income earned by our taxable REIT subsidiary. As a result, the deferred tax assets and deferred tax liabilities of our taxable REIT subsidiary are measured at June 30, 2018 using the 21% corporate income tax rate.

12. EARNINGS PER SHARE AND EARNINGS PER UNIT

The Company reports earnings per share and earnings per unit data in accordance ASC Topic 260, “*Earnings Per Share*.” Under ASC Topic 260-10, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. The Parent Company and the Operating Partnership have calculated their basic and diluted earnings per share/unit using the two-class method.

The following table sets forth the computation of basic and diluted earnings per common share utilizing the two-class method.

Earnings Per Share

<u>(in thousands except per share data)</u>	<u>Three Months Ended June 30, 2018</u>	<u>Three Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2018</u>	<u>Six Months Ended June 30, 2017</u>
Numerator:				
Net income attributable to common shareholders	\$ 39,274	\$ 19,355	\$ 73,163	\$ 39,785
Denominator:				
Denominator for basic earnings per share – weighted average shares	46,481	46,365	46,467	46,335
Effect of Dilutive Securities:				
Stock options and non-vested stock	95	113	90	113
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversion	46,576	46,478	46,557	46,448
Basic earnings per common share attributable to common shareholders	\$ 0.84	\$ 0.42	\$ 1.57	\$ 0.86
Diluted earnings per common share attributable to common shareholders	\$ 0.84	\$ 0.42	\$ 1.57	\$ 0.86

Earnings Per Unit

The following table sets forth the computation of basic and diluted earnings per common unit utilizing the two-class method.

<u>(in thousands except per unit data)</u>	<u>Three Months Ended June 30, 2018</u>	<u>Three Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2018</u>	<u>Six Months Ended June 30, 2017</u>
Numerator:				
Net income attributable to common unitholders	\$ 39,274	\$ 19,355	\$ 73,163	\$ 39,785
Denominator:				
Denominator for basic earnings per unit – weighted average units	46,481	46,365	46,467	46,335
Effect of Dilutive Securities:				
Stock options and non-vested stock	95	113	90	113
Denominator for diluted earnings per unit – adjusted weighted average units and assumed conversion	46,576	46,478	46,557	46,448
Basic earnings per common unit attributable to common unitholders	\$ 0.84	\$ 0.42	\$ 1.57	\$ 0.86
Diluted earnings per common unit attributable to common unitholders	\$ 0.84	\$ 0.42	\$ 1.57	\$ 0.86

Not included in the effect of dilutive securities above for both earnings per share and earnings per unit are 11,000 stock options and 111,122 unvested restricted shares for the three months ended June 30, 2018, and 15,500 stock options and 133,094 unvested restricted shares for the three months ended June 30, 2017, because their effect would be antidilutive. Not included in the effect of dilutive securities above are 11,000 stock options and 114,592 unvested restricted shares for the six months ended June 30, 2018, and 13,250 stock options and 142,074 unvested restricted shares for the six months ended June 30, 2017, because their effect would be antidilutive.

13. SHAREHOLDERS' EQUITY

The following is a reconciliation of the changes in the Parent Company's total shareholders' equity for the period:

<u>(dollars in thousands)</u>	<u>Six Months Ended June 30, 2018</u>
Beginning balance of total shareholders' equity	\$ 2,028,323
Exercise of stock options	3,045
Earned portion of non-vested stock	2,748
Stock option expense	7
Carrying value less than redemption value on redeemed noncontrolling interest	(30)
Adjustment to redemption value on noncontrolling redeemable Operating Partnership units	(1,565)
Net income attributable to common shareholders	73,163
Amortization of terminated hedge included in AOCL	458
Change in fair value of derivatives	(74)
Dividends	(92,635)
Ending balance of total shareholders' equity	<u>\$ 2,013,440</u>

On June 14, 2018, the Company entered into a continuous equity offering program ("Equity Program") with Wells Fargo Securities, LLC, Jefferies LLC, SunTrust Robinson Humphrey, Inc., HSBC Securities (USA) Inc., BB&T Capital Markets, a division of BB&T Securities, LLC, and BTIG, LLC, pursuant to which the Company may sell up to \$300 million in aggregate offering price of shares of the Company's common stock. Actual sales under the Equity Program will depend on a variety of factors and conditions, including, but not limited to, market conditions, the trading price of the Company's common stock, and determinations of the appropriate sources of funding for the Company. The Company expects to continue to offer, sell and issue shares of common stock under the Equity Program from time to time based on various factors and conditions, although the Company is under no obligation to sell any shares under the Equity program.

During the six months ended June 30, 2018, the Company did not issue any shares of common stock under the Equity Program and as of June 30, 2018, the entire \$300 million authorized under the Equity Program remains available for issuance.

On August 2, 2017, the Company's Board of Directors authorized the repurchase of up to \$200 million of the Company's outstanding common shares ("Buyback Program"). The Buyback Program allows the Company to purchase shares of its common stock in accordance with applicable securities laws on the open market, through privately negotiated transactions, or through other methods of acquiring shares. The Buyback Program may be suspended or discontinued at any time. The Company did not repurchase any outstanding common shares under the Buyback Program during the six months ended June 30, 2018.

In 2013, the Company implemented a Dividend Reinvestment Plan. The Company issued 118,656 shares under the plan during the six months ended June 30, 2017. On August 2, 2017, the Company's Board of Directors suspended the Dividend Reinvestment Plan.

14. PARTNERS' CAPITAL

The following is a reconciliation of the changes in total partners' capital for the period:

<u>(dollars in thousands)</u>	<u>Six Months Ended June 30, 2018</u>
Beginning balance of total controlling partners' capital	\$ 2,028,323
Exercise of stock options	3,045
Earned portion of non-vested stock	2,748
Stock option expense	7
Carrying value less than redemption value on redeemed noncontrolling interest	(30)
Adjustment to redemption value on limited partners' redeemable capital interests	(1,565)
Net income attributable to common unitholders	73,163
Amortization of terminated hedge included in AOCL	458
Change in fair value of derivatives	(74)
Distributions	(92,635)
Ending balance of total controlling partners' capital	<u>\$ 2,013,440</u>

15. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires an entity to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and is therefore effective for the Company as of January 1, 2018. The Company had the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the new guidance recognized at the date of initial application (the modified retrospective transition method). The Company elected to adopt the standard using the modified retrospective transition method. Leases are specifically excluded from the scope of ASU 2014-09, therefore, upon analysis, the Company concluded that the adoption of the new standard did not have any impact on the timing or amounts of the Company's rental revenue from customers which represents over 90% of the Company's total operating revenues. We have evaluated the other revenue streams material to the Company and have concluded that the adoption of the new standard did not have any material impact on the timing or amounts of the Company's material revenue streams and no cumulative effect adjustment is required as of the date of initial application. Payment from such revenue streams is due and generally collected upon invoice. Also, as part of the Company's adoption of ASU 2014-09, the Company has elected to apply the guidance only to contracts that are not completed contracts at the date of initial application. Further, related to the Company's management fee revenue stream which relates to managing self-storage facilities for third-parties and unconsolidated joint ventures, the Company has elected to apply a practical expedient provided in the new standard which allows the Company to recognize revenue in the amount of management fees to which the Company has a right to invoice as that amount corresponds directly with the value to the customer of the entity's performance completed to date. With respect to the Company's revenues related to tenant insurance, the Company recognizes revenue based upon the amount that the Company has the right to invoice following the practical expedient in ASC 606-10-55-18 as such amount corresponds directly with the value to the third-party insurer of the entity's performance completed to date.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This guidance revises existing practice related to accounting for leases under Accounting Standards Codification Topic 840 *Leases* (ASC 840) for both lessees and lessors. The new guidance in ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while finance leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). While the new standard maintains similar accounting for lessors as under ASC 840, the new standard reflects updates to, among other things, align with certain changes to the lessee model. ASU 2016-02 is effective for fiscal years and interim periods, within those years, beginning after December 15, 2018. Early adoption is permitted for all entities, though the Company does not expect to adopt ASU 2016-02 early. The Company is in the process of inventorying all leases and examining certain other contracts to identify

whether such contracts contain a lease as defined under the new guidance. The Company does not have a large population of operating leases. The most significant of the Company's operating leases are certain land and building leases which, when accumulated, have aggregate annual minimum payments of approximately \$3 million. The Company is currently evaluating the impact of adopting the new leases standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a Consensus of the Emerging Issues Task Force)" in an effort to reduce existing diversity in practice related to the classification of certain cash receipts and cash payments on the statements of cash flows. The guidance addresses the classification of cash flows related to, among other things, distributions received from equity method investees. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company has elected to use the nature of the distribution approach to classify distributions received from its equity method investees. This approach requires distributions to be classified in the statement of cash flows on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as a cash inflow from operating activities) or a return of investment (classified as a cash inflow from investing activities). The adoption of ASU 2016-15 effective January 1, 2018 did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of the Emerging Issues Task Force)" which requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption of this update is permitted. Other than modifications to the statement of cash flows and the additional disclosures in Note 4, the adoption of ASU 2016-18 on January 1, 2018 did not have an impact on the Company's consolidated financial statements. The consolidated statement of cash flows for the six months ended June 30, 2017 has been modified to conform to the presentation requirements of ASU 2016-18 which entail including restricted cash along with cash in the beginning balance, ending balance and net change in cash and restricted cash on the consolidated statement of cash flows.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" which is intended to assist entities with evaluating whether a set of transferred assets and activities is a business. The amendments in this update are effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption of this update is permitted and the Company adopted this update effective January 1, 2017. The adoption of ASU 2017-01 is expected to have potential impact on the accounting treatment of properties acquired subsequent to the adoption date. Property acquisitions treated as business combinations under previous guidance may no longer be treated as business combinations subsequent to the adoption of ASU 2017-01. To the extent that properties that we acquire do not meet the definition of a "business" under ASU 2017-01, future acquisitions of properties may be accounted for as asset acquisitions resulting in the capitalization of acquisition costs incurred in connection with these transactions and the allocation of the purchase price and related acquisition costs to the assets acquired based on their relative fair values. There were no properties acquired during the six months ended June 30, 2018 that would have been accounted for as business combinations prior to the adoption of ASU 2017-01.

In February 2017, the FASB issued ASU 2017-05, "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets" which clarifies the scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets, including real estate, and in substance nonfinancial assets to noncustomers, including partial sales. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The implementation of this update as of January 1, 2018 could potentially impact the accounting treatment of future real estate sales of the Company if such sales are to parties who are also customers of the Company, though the implementation did not have an impact on the Company's consolidated financial statements for the period ending June 30, 2018.

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting" which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The implementation of this update as of January 1, 2018 did not have a material impact on the Company's financial statements, however, all future changes to the terms or conditions of any of the Company's share-based payment awards are subject to the guidance in ASU 2017-09 and could potentially be accounted for differently than under the previous guidance concerning such changes.

16. COMMITMENT AND CONTINGENCIES

On or about August 25, 2014, a putative class action was filed against the Company in the Superior Court of New Jersey Law Division Burlington County. The action sought to obtain declaratory, injunctive and monetary relief for a class of consumers based upon

alleged violations by the Company of various statutory laws. On October 17, 2014, the action was removed from the Superior Court of New Jersey Law Division Burlington County to the United States District Court for the District of New Jersey. The parties subsequently reached a settlement of all claims for an aggregate amount of \$8.0 million, and the settlement was approved by the court on June 12, 2018. The Company is in the process of making payments under the settlement to the members of the class. The aggregate settlement amount of \$8.0 million (\$6.0 million after considering income tax impact) has been recorded as a liability in the Company's consolidated balance sheet. A portion of the settlement expense relates to self-storage facilities that are managed by the Company through its taxable REIT subsidiary. There is an income tax impact to the Company on that portion of the settlement expense as a result.

17. SUBSEQUENT EVENTS

On July 5, 2018, the Company declared a quarterly dividend of \$1.00 per common share. The dividend was paid on July 26, 2018 to shareholders of record on July 16, 2018. The total dividend paid amounted to \$46.6 million.

Subsequent to June 30, 2018, the Company entered into contracts to acquire three self-storage facilities for an aggregate purchase price of \$27.6 million. The purchases of these facilities are subject to customary conditions to closing, and there is no assurance that these facilities will be acquired.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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 Act of 1933 and in Section 21E of the 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 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 comply with debt covenants; any future ratings on the Company’s debt instruments; regional concentration of the Company’s business may subject it to economic downturns in the states of Florida and Texas; the Company’s reliance on its call center; the Company’s cash flow may be insufficient to meet required payments of operating expenses, principal, interest and dividends; and tax law changes that may change the taxability of future income.

RESULTS OF OPERATIONS

FOR THE PERIOD APRIL 1, 2018 THROUGH JUNE 30, 2018, COMPARED TO THE PERIOD APRIL 1, 2017 THROUGH JUNE 30, 2017

We recorded rental revenues of \$125.9 million for the three months ended June 30, 2018, an increase of \$5.3 million or 4.3% when compared to rental revenues of \$120.6 million for the same period in 2017. Of the increase in rental revenue, \$4.9 million resulted from a 4.3% increase in rental revenues at the 535 core properties considered in same store sales (those properties included in the consolidated results of operations since January 1, 2017, excluding stores not yet stabilized, the properties we sold in 2017, seven stores significantly impacted by flooding in 2016 and 2017, and two stores that the Company began to fully replace in 2017). The increase in same store rental revenues was a result of a 3.4% increase in rental income per square foot and a 20 basis point increase in average occupancy. The remaining increase in rental revenue of \$0.4 million resulted from the revenues from the stores not included in the same store pool. Other operating income, which includes merchandise sales, revenues related to tenant insurance, truck rentals, management fees and acquisition fees, remained consistent during the three months ended June 30, 2018 compared to the same period in 2017 primarily as a result of increased revenues related to tenant insurance and increased management fees earned as a result of an increase in managed properties, offset by a \$1.2 million reduction in acquisition fees earned as a result of properties acquired by unconsolidated joint ventures during the three months ended June 30, 2017.

Property operations and maintenance expenses increased \$0.1 million or 0.2% in the three months ended June 30, 2018 compared to the same period in 2017. Property operations and maintenance expenses related to the 535 core properties considered in the same store pool remained relatively consistent with a \$0.2 million or 0.8% decrease primarily as a result of lower internet marketing costs. In addition to the same store operating expense decrease, operating expenses increased \$0.3 million as a result of the net activity from the stores not included in the same store pool. Real estate tax expense increased \$1.1 million as a result of a 6.2% increase in property taxes on the 535 same store pool and the inclusion of taxes on the properties not included in the same store pool.

Net operating income increased \$4.0 million or 4.5% resulting from a 5.2% increase in our same store net operating income along with the impact of the properties acquired since January 1, 2017 and stores not yet stabilized.

Net operating income or “NOI” is a non-GAAP (generally accepted accounting principles) financial measure that we define as total continuing revenues less continuing property operating expenses. NOI also can be calculated by adding back to net income: interest expense, impairment and casualty losses, operating lease expense, depreciation and amortization expense, acquisition related costs, general and administrative expense, and deducting from net income: income from discontinued operations, interest income, gain on sale of real estate, and equity in income of joint ventures. We believe that NOI is a meaningful measure to investors in evaluating our operating performance because we utilize NOI in making decisions with respect to capital allocations, in determining current property values, and in comparing period-to-period and market-to-market property operating results. Additionally, NOI is widely used in the real estate industry and the self-storage industry to measure the performance and value of real estate assets without regard to various items included in net income that do not relate to or are not indicative of operating performance, such as depreciation and

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

The following table reconciles our net income presented in the consolidated financial statements to NOI generated by our self-storage facilities for the three months ended June 30, 2018 and 2017.

(dollars in thousands)	Three Months ended June 30,	
	2018	2017
Net income (loss)	\$ 39,457	\$ 19,432
General and administrative	11,728	15,959
Payments for rent	141	141
Depreciation and amortization	24,784	38,105
Interest expense	17,518	15,716
Interest income	(2)	(1)
Equity in income of joint ventures	(1,048)	(785)
Net operating income	<u>\$ 92,578</u>	<u>\$ 88,567</u>
Net operating income		
Same store	\$ 85,868	\$ 81,634
Other stores and management fee income	6,710	6,933
Total net operating income	<u>\$ 92,578</u>	<u>\$ 88,567</u>

Our 2018 same store results consist of only those properties that have been owned by the Company and included in our consolidated results since January 1, 2017, excluding stores not yet stabilized, the properties we sold in 2017, seven stores significantly impacted by flooding in 2016 and 2017, and two stores that the Company began to fully replace in 2017. The following table sets forth operating data for our 535 same store properties. These results provide information relating to property operating changes without the effects of acquisitions.

Same Store Summary

(dollars in thousands)	Three Months ended June 30,		Percentage Change
	2018	2017	
Same store rental income	\$ 120,196	\$ 115,263	4.3 %
Same store other operating income	6,636	6,720	(1.3) %
Total same store operating income	126,832	121,983	4.0 %
Payroll and benefits	10,262	10,115	1.5 %
Real estate taxes	14,378	13,539	6.2 %
Utilities	3,607	3,545	1.7 %
Repairs and maintenance	4,297	4,339	(1.0) %
Office and other operating expenses	3,958	4,042	(2.1) %
Insurance	1,487	1,420	4.7 %
Advertising and yellow pages	326	335	(2.7) %
Internet marketing	2,649	3,014	(12.1) %
Total same store operating expenses	40,964	40,349	1.5 %
Same store net operating income	<u>\$ 85,868</u>	<u>\$ 81,634</u>	<u>5.2 %</u>
			Change
Quarterly same store move ins	55,827	58,440	(2,613)
Quarterly same store move outs	50,304	50,016	288

We believe the decrease in same store move ins was due to increased competition and customer rate sensitivity in certain markets coupled with our higher occupancy rates in 2018 resulting in less spaces available to rent. We believe the increase in same store move outs was a result of efforts in the current year to strategically increase existing customer rates across the majority of markets.

General and administrative expenses for the three months ended June 30, 2018 decreased \$4.2 million or 26.5% when compared with the three months ended June 30, 2017. This decrease is primarily a result of the Company recording the impact of the New Jersey lawsuit settlement, which is discussed in Note 16, during the three months ended June 30, 2017.

Depreciation and amortization expense decreased to \$24.8 million in the three months ended June 30, 2018 from \$38.1 million in the same period of 2017, as a result of reduced amortization of customer lists, primarily related to Lifestorage, LP and other acquisitions in 2016, which became fully amortized during the third and fourth quarters of 2017.

Total interest expense increased \$1.8 million in the three months ended June 30, 2018 as compared to the same period in 2017 primarily as a result of increased outstanding debt balances in 2018 as compared to 2017 and higher interest rates on the Company's line of credit in 2018.

FOR THE PERIOD JANUARY 1, 2018 THROUGH JUNE 30, 2018, COMPARED TO THE PERIOD JANUARY 1, 2017 THROUGH JUNE 30, 2018

We recorded rental revenues of \$247.5 million for the six months ended June 30, 2018, an increase of \$8.3 million or 3.5% when compared to rental revenues of \$239.2 million for the same period in 2017. Of the increase in rental revenue, \$7.7 million resulted from a 3.3% increase in rental revenues at the 535 core properties considered in same store sales (those properties included in the consolidated results of operations since January 1, 2017, excluding stores not yet stabilized, the properties we sold in 2017, seven stores significantly impacted by flooding in 2016 and 2017, and two stores that the Company began to fully replace in 2017). The increase in same store rental revenues was a result of a 1.7% increase in rental income per square foot and an 80 basis point increase in average occupancy. The remaining increase in rental revenue of \$0.6 million resulted from the revenues from the stores not included in the same store pool. Other operating income, which includes merchandise sales, revenues related to tenant insurance, truck rentals, management fees and acquisition fees, increased by \$1.7 million for the six months ended June 30, 2018 compared to the same period in 2017 primarily as a result of increased revenues related to tenant insurance and increased management fees earned as a result of an increase in managed properties, offset by a \$1.3 million reduction in acquisition fees earned as a result of properties acquired by unconsolidated joint ventures during the six months ended June 30, 2017.

Property operations and maintenance expenses increased \$0.7 million or 1.2% in the six months ended June 30, 2018 compared to the same period in 2017. The increase was a result of the net activity from the stores not included in the same store pool. Property operations and maintenance expense of the 535 core properties considered in the same store pool remained consistent as reductions in internet marketing costs were offset by increases in payroll and treasury related costs. Real estate tax expense increased \$2.1 million as a result of a 6.2% increase in property taxes on the 535 same store pool and the inclusion of taxes on the properties not included in the same store pool.

Net operating income increased \$7.1 million or 4.1% as a result of a 3.8% increase in our same store net operating income and the acquisitions completed since January 1, 2017 and stores not yet stabilized.

The following table reconciles NOI generated by our self-storage facilities to our net income presented in the consolidated financial statements for the six months ended June 30, 2018 and 2017.

(dollars in thousands)	Six Months ended June 30,	
	2018	2017
Net income	\$ 73,507	\$ 39,957
General and administrative	23,771	27,396
Operating leases of storage facilities	283	141
Depreciation and amortization	49,548	75,747
Interest expense	34,722	30,926
Interest income	(6)	(4)
Equity in income of joint ventures	(2,020)	(1,506)
Net operating income	<u>\$ 179,805</u>	<u>\$ 172,657</u>
Net operating income		
Same store	\$ 166,806	\$ 160,625
Other stores and management fee income	12,999	12,032
Total net operating income	<u>\$ 179,805</u>	<u>\$ 172,657</u>

Our 2018 same store results consist of only those properties that have been owned by the Company and included in our consolidated results since January 1, 2017, excluding stores not yet stabilized, the properties we sold in 2017, seven stores significantly impacted by flooding in 2016 and 2017, and two stores that the Company began to fully replace in 2017. The following table sets forth operating data for our 535 same store properties. These results provide information relating to property operating changes without the effects of acquisitions.

Same Store Summary

(dollars in thousands)	Six Months ended June 30,		Percentage
	2018	2017	Change
Same store rental income	\$ 236,390	\$ 228,728	3.3 %
Same store other operating income	12,974	12,803	1.3 %
Total same store operating income	249,364	241,531	3.2 %
Payroll and benefits	20,806	20,343	2.3 %
Real estate taxes	28,756	27,079	6.2 %
Utilities	7,682	7,323	4.9 %
Repairs and maintenance	9,000	9,279	(3.0)%
Office and other operating expenses	8,140	8,058	1.0 %
Insurance	2,930	2,785	5.2 %
Advertising and yellow pages	658	672	(2.1)%
Internet marketing	4,586	5,367	(14.6)%
Total same store operating expenses	82,558	80,906	2.0 %
Same store net operating income	\$ 166,806	\$ 160,625	3.8 %

			Change
Year-to-date same store move ins	104,267	108,868	(4,601)
Year-to-date same store move outs	97,007	96,898	109

We believe the decrease in same store move ins was due to increased competition and customer rate sensitivity in certain markets coupled with our higher occupancy rates in 2018 resulting in less spaces available to rent. We believe the increase in same store move outs was a result of efforts in the current year to strategically increase existing customer rates across the majority of markets.

General and administrative expenses for the six months ended June 30, 2018 decreased \$3.6 million or 13.2% compared with the six months ended June 30, 2017. This decrease is primarily a result of the Company recording the impact of the New Jersey lawsuit settlement, which is discussed in Note 16, during the six months ended June 30, 2017, partially offset by \$1.1 million of costs incurred during 2018 associated with changes to the composition of the Company's Board of Directors and other proxy matters.

Depreciation and amortization expense decreased to \$49.5 million in the six months ended June 30, 2018 from \$75.7 million in the same period of 2017, as a result of reduced amortization of customer lists, primarily related to Lifestorage, LP and other acquisitions in 2016, which became fully amortized during the third and fourth quarters of 2017.

Total interest expense increased \$3.8 million in the six months ended June 30, 2018 as compared to the same period in 2017 primarily as a result of increased outstanding debt balances in 2018 as compared to 2017 and higher interest rates on the Company's line of credit in 2018.

FUNDS FROM OPERATIONS

We believe that Funds from Operations ("FFO") provides relevant and meaningful information about our operating performance that is necessary, along with net earnings, cash flows, and our dividend payout ratio, for an understanding of our operating results. FFO adds back historical cost depreciation, which assumes the value of real estate assets diminishes predictably in the future. In fact, real estate asset values increase or decrease with market conditions. Consequently, we believe FFO is a useful supplemental measure in evaluating our operating performance by disregarding (or adding back) historical cost depreciation.

FFO is defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT") as net income available to common shareholders computed in accordance with generally accepted accounting principles ("GAAP"), excluding gains or losses on sales of properties, plus impairment of real estate assets, 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.

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.

Reconciliation of Net Income to Funds From Operations (unaudited)

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income attributable to common shareholders	\$ 39,274	\$ 19,355	\$ 73,163	\$ 39,785
Net income attributable to noncontrolling interest	183	77	344	172
Depreciation of real estate and amortization of intangible assets	24,270	37,708	48,526	74,973
Depreciation and amortization from unconsolidated joint ventures	1,234	948	2,430	1,716
Funds from operations allocable to noncontrolling redeemable Operating Partnership Units	(302)	(229)	(582)	(502)
FFO available to common shareholders	<u>\$ 64,659</u>	<u>\$ 57,859</u>	<u>\$ 123,881</u>	<u>\$ 116,144</u>

LIQUIDITY AND CAPITAL RESOURCES

Our line of credit and term notes require us to meet certain financial covenants measured on a quarterly basis, including prescribed leverage, fixed charge coverage, minimum net worth, limitations on additional indebtedness, and limitations on dividend payouts. At June 30, 2018, the Company was in compliance with all debt covenants. In the event that the Company violates its debt covenants in the future, the amounts due under the agreements could be callable by the lenders and could adversely affect our credit rating requiring us to pay higher interest and other debt-related costs. We believe that if operating results remain consistent with historical levels and levels of other debt and liabilities remain consistent with amounts outstanding at June 30, 2018, the entire availability under our line of credit could be drawn without violating our debt covenants.

Our ability to retain cash flow is limited because we operate as a REIT. In order to maintain our REIT status, a substantial portion of our operating cash flow must be used to pay dividends to our shareholders. We believe that our internally generated net cash provided by operating activities and the availability on our line of credit will be sufficient to fund ongoing operations, capital improvements, dividends and debt service requirements.

Cash flows from operating activities were \$110.7 million and \$108.9 million for the six months ended June 30, 2018 and 2017, respectively. The increase in operating cash flows in the 2018 period compared to the 2017 period was primarily due to the increase in net income after adjusting for non-cash items, partially offset by \$8.0 million placed into escrow in 2018 related to the settlement of the New Jersey lawsuit discussed in Note 16.

Cash used in investing activities was \$29.9 million and \$120.9 million for the six months ended June 30, 2018 and 2017, respectively. The decrease in cash used in investing activities in the 2018 period compared to the 2017 period was primarily due to the decreased volume of acquisitions in 2018 as compared to the same period in 2017, along with decreased capital contributions made to joint ventures and decreased capital expenditures on enhancements and improvements to existing facilities.

Cash used in financing activities was \$82.4 million for the six months ended June 30, 2018, compared to cash used in financing activities of \$3.4 million for the six months ended June 30, 2017. The increase is primarily a result of decreased net borrowings against the Company's revolving line of credit which was used largely to pay for acquisitions and to make capital contributions to joint ventures in the first half of 2017.

Note 6 and Note 7 to the consolidated financial statements include details related to the Company's unsecured line of credit, term notes, mortgages, and other indebtedness. Note 13 to the consolidated financial statements includes details of our shareholders' equity and activity related thereto.

Our line of credit facility and term notes have an investment grade rating from Standard and Poor's (BBB) and Moody's (Baa2).

Future acquisitions, our expansion and enhancement program, and share repurchases are expected to be funded with draws on our line of credit, issuance of common and preferred stock, the issuance of unsecured term notes, sale of properties, and private placement solicitation of joint venture equity. Should the capital markets deteriorate, we may have to curtail acquisitions, our expansion and enhancement program and share repurchases.

ACQUISITION AND DISPOSITION OF PROPERTIES

The Company did not acquire or dispose of any self-storage facilities during the six months ended June 30, 2018.

In 2017, the Company acquired two self-storage facilities comprising 148,000 square feet in Illinois (1) and North Carolina (1) for a total purchase price of \$22.6 million. As both of these acquisitions were of newly constructed facilities, the weighted average capitalization rate for each acquisition was 0% as these facilities did not have any operating cash flows at the time of acquisition.

During 2017, the Company sold two non-strategic storage facilities in Utah (1) and Texas (1) for net proceeds of approximately \$16.9 million, resulting in a \$3.5 million loss on sale. The Company has subsequently leased one of these properties and has deferred the related gain until the termination of the lease which is scheduled in 2020.

Subsequent to June 30, 2018, the Company entered into contracts to acquire three self-storage facilities for an aggregate purchase price of \$27.6 million. The purchases of these facilities are subject to customary conditions to closing, and there is no assurance that these facilities will be acquired.

We may acquire stabilized or newly constructed properties in 2018. We may also seek to sell additional properties to third parties or joint venture partners in 2018.

FUTURE ACQUISITION AND DEVELOPMENT PLANS

Our external growth strategy is to increase the number of facilities we own by acquiring suitable facilities in markets in which we already have operations, or to expand into new markets by acquiring several facilities at once in those new markets. We are actively pursuing acquisitions in 2018, including potential acquisitions by unconsolidated joint ventures.

In the six months ended June 30, 2018, we added 51,000 square feet to existing properties for a total cost of approximately \$3.2 million. We plan to complete an additional \$40 million to \$45 million of expansions and enhancements to our existing facilities in 2018, of which \$23.0 million was paid as of June 30, 2018.

We also expect to continue making capital expenditures on our properties. This includes roofing, paving, and remodeling of store offices. For the six months ended June 30, 2018, we spent approximately \$10.9 million on such improvements and we expect to spend approximately \$10 million to \$13 million for the remainder of 2018.

REIT QUALIFICATION AND DISTRIBUTION REQUIREMENTS

As a REIT, we are not required to pay federal income tax on income that we distribute to our shareholders, provided that we satisfy certain requirements, including distributing at least 90% of our REIT taxable income for a taxable year. These distributions must be made in the year to which they relate, or in the following year if declared before we file our federal income tax return, and if they are paid not later than the date of the first regular dividend of the following year. As a REIT, we must derive at least 95% of our total gross income from income related to real property, interest and dividends.

Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our Board of Directors to revoke our REIT election.

UMBRELLA PARTNERSHIP REIT

We are formed as an Umbrella Partnership Real Estate Investment Trust ("UPREIT") and, as such, have the ability to issue Operating Partnership Units in exchange for properties sold by independent owners. By utilizing such Units as currency in facility acquisitions, we may obtain more favorable pricing or terms due to the seller's ability to partially defer their income tax liability. As of June 30, 2018, 215,009 Units are outstanding. These Units had been issued in exchange for self-storage properties at the request of the sellers.

INTEREST RATE RISK

The primary market risk to which we believe we are exposed is interest rate risk, which may result from many factors, including government monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control.

We have entered into interest rate swap agreements in order to mitigate the effects of fluctuations in interest rates on our variable rate debt. The LIBOR base rates have been contractually fixed on \$100 million of our debt through the interest rate swap termination dates. See Note 8 to our consolidated financial statements appearing elsewhere in this quarterly report on Form 10-Q.

Through September 2018, \$100 million of our \$213 million of floating rate unsecured debt is on a fixed rate basis after taking into account our interest rate swap agreements. Based on our outstanding unsecured floating rate debt of \$213 million at June 30, 2018, and taking into account our interest rate swap agreements, a 100 basis point increase in interest rates would have a \$1.1 million effect on our annual interest expense. These amounts were determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on June 30, 2018. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

INFLATION

We do not believe that inflation has had or will have a direct effect on our operations. Substantially all of the leases at the facilities are on a month-to-month basis which provides us with the opportunity to increase rental rates in a timely manner in response to any potential future inflationary pressures.

SEASONALITY

Our revenues typically have been higher in the third and fourth quarters, primarily 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 and college student activity during these periods. However, we believe that our customer mix, diverse geographic locations, rental structure and expense structure provide adequate protection against undue fluctuations in cash flows and net revenues during off-peak seasons. Thus, we do not expect seasonality to affect materially distributions to shareholders.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 15 to the financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Parent Company

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, has been conducted under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective at June 30, 2018. There have not been changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter ended June 30, 2018.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Operating Partnership

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, has been conducted under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective at June 30, 2018. There have not been changes in the Operating Partnership's internal controls or in other factors that could significantly affect these controls during the quarter ended June 30, 2018.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Operating Partnership's internal control over financial reporting (as defined in 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934) that occurred during the Operating Partnership's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

On or about August 25, 2014, a putative class action was filed against the Company in the Superior Court of New Jersey Law Division Burlington County. The action sought to obtain declaratory, injunctive and monetary relief for a class of consumers based upon alleged violations by the Company of various statutory laws. On October 17, 2014, the action was removed from the Superior Court of New Jersey Law Division Burlington County to the United States District Court for the District of New Jersey. The parties subsequently reached a settlement of all claims for an aggregate amount of \$8.0 million, and the settlement was approved by the court on June 12, 2018. The Company is in the process of making payments under the settlement to the members of the class. The aggregate settlement amount of \$8.0 million (\$6.0 million after considering income tax impact) has been recorded as a liability in the Company's consolidated balance sheet. A portion of the settlement expense relates to self-storage facilities that are managed by the Company through its taxable REIT subsidiary. There is an income tax impact to the Company on that portion of the settlement expense as a result.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table summarizes our purchases of our common stock from August 2, 2017 through June 30, 2018.

Issuer Purchases of Equity Securities

<u>Period</u>	<u>(a) Total number of shares purchased</u>	<u>(b) Average price paid per share</u>	<u>(c) Total number of shares purchased as part of publicly announced plans or programs (1)</u>	<u>(d) Approx. dollar value of shares that may yet be purchased under the plans or programs (1)</u>
August 2, 2017 - August 31, 2017	92,150	\$ 72.98	92,150	\$ 193,274,647
September 1, 2017 - September 30, 2017	20,404	73.94	20,404	191,765,955
October 1, 2017 - December 31, 2017	—	—	—	—
January 1, 2018 - March 31, 2018	—	—	—	—
April 1, 2018 - June 30, 2018	—	—	—	—
Total	112,554	73.16	112,554	\$ 191,765,955

(1) On August 2, 2017, the Company's Board of Directors authorized the repurchase of up to \$200 million of the Company's common stock. The program does not have an expiration date but may be suspended or discontinued at any time.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

- 3.1* [Amendment to Agreement of Limited Partnership of Life Storage LP](#)
- 31.1 [Certification of Chief Executive Officer of Life Storage, Inc. pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended.](#)
- 31.2 [Certification of Chief Financial Officer of Life Storage, Inc. pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended.](#)
- 31.3 [Certification of Chief Executive Officer of Life Storage LP pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended.](#)
- 31.4 [Certification of Chief Financial Officer of Life Storage LP pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended.](#)
- 32 [Certification of Chief Executive Officer and Chief Financial Officer of Life Storage, Inc. Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer and Chief Financial Officer of Life Storage LP Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following financial statements from the Parent Company's and the Operating Partnership's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL, as follows:
- (i) Consolidated Balance Sheets at June 30, 2018 and December 31, 2017;
 - (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017;
 - (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017;
 - (iv) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017; and
 - (v) Notes to Consolidated Financial Statements.
- * Filed Herewith

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.

Life Storage, Inc.

By: /S/ Andrew J. Gregoire
Andrew J. Gregoire
Chief Financial Officer
(Principal Accounting Officer)

August 2, 2018
Date

Life Storage LP

By: /S/ Andrew J. Gregoire
Andrew J. Gregoire
Chief Financial Officer
(Principal Accounting Officer)

August 2, 2018
Date

**AMENDMENT TO AGREEMENT OF
LIMITED PARTNERSHIP OF
LIFE STORAGE LP**

This AMENDMENT OF THE AGREEMENT OF LIMITED PARTNERSHIP OF LIFE STORAGE LP, dated as of August 1, 2018 (this “Amendment”), is being executed by Life Storage Holdings, Inc., a Delaware corporation (the “General Partner”), as the general partner of Life Storage LP, a Delaware limited partnership (the “Partnership”), pursuant to the authority conferred on the General Partner by Section 14.1.B.5 of the Agreement of Limited Partnership of Life Storage LP, dated as of June 1, 1995, as amended (the “Partnership Agreement”). Capitalized terms used, but not otherwise defined herein, shall have the respective meanings ascribed thereto in the Agreement.

WHEREAS, effective for taxable years beginning on or after January 1, 2018, Section 1101 of the Bipartisan Budget Act of 2015 (P.L. 114-74) (the “Bipartisan Budget Act”) amended the provisions of the Internal Revenue Code of 1986, as amended, with respect to audits of partnerships by the Internal Revenue Service; and

WHEREAS, the General Partner has determined it to be in the best interest of the Partnership to amend the Partnership Agreement to reflect the amendments made by the Bipartisan Budget Act;

NOW, THEREFORE, in consideration of the foregoing, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged:

1. The heading for Section 10.3 of the Partnership Agreement is hereby amended and restated to read as follows:

“Tax Matters Partner/Partnership Representative”

2. The first sentence of Section 10.3(A) of the Partnership Agreement is hereby amended and restated to read as follows:

“For taxable years beginning before January 1, 2018, the General Partner shall be the “tax matters partner” of the Partnership for federal income tax purposes.”

3. A new Section 10.3(C) is hereby added to the Partnership Agreement to read as follows:

“For taxable years beginning on or after January 1, 2018, the General Partner, or a person selected by the General Partner, shall be designated and shall act as the “partnership representative” pursuant to Section 6223 of the Code (as amended by the Section 1101 of P.L. 114-74 (the “Bipartisan Budget Act”)) with all of the rights, duties and powers provided for in Code Sections 6221 through 6241 (as amended by the

Bipartisan Budget Act). Subject to the terms of this Agreement, the partnership representative shall have full discretion to represent and bind the Partnership in any audit or administrative proceeding conducted by any taxing authority, including without limitation, the power and authority (i) to make an election under Section 6223 (if available) or Section 6226 of the Code (as each was amended by the Bipartisan Budget Act), and any treasury regulations promulgated in accordance therewith, (ii) to take, and to cause the Partnership to take, all actions necessary or convenient to give effect to such an election and (iii) and to make use of, or cause the Partnership to make use of, any other options that are or may become available under applicable Code sections, treasury regulations or guidance. The taking of any action and the incurring of any expense by the partnership representative in connection with any such audit or administrative proceeding, except to the extent required by law, is a matter in the sole and absolute discretion of the partnership representative and the provisions relating to indemnification of the General Partner set forth in Section 7.7 of this Agreement shall be fully applicable to the partnership representative in its capacity as such.”

- Existing Section 10.3(C) of the Partnership Agreement is hereby renumbered as Section 10.3(D) and is hereby amended and restated to read as follows:

“Neither the tax matters partner nor the partnership representative shall receive any compensation for its services as such. All third party costs and expenses incurred by the tax matters partner or the partnership representative in performing its duties as such (including legal and accounting fees and expenses) shall be borne by the Partnership. Nothing herein shall be construed to restrict the Partnership from engaging an accounting firm or law firm to assist the tax matters partner or partnership representative in discharging its duties hereunder.”

- Except as specifically amended hereby, the terms, covenants, provisions and conditions of the Partnership Agreement shall remain unmodified and continue in full force and effect and, except as amended hereby, all of the terms, covenants, provisions and conditions of the Partnership Agreement are hereby ratified and confirmed in all respects.

IN WITNESS WHEREOF, this Amendment has been executed as of the date first written above.

LIFE STORAGE HOLDINGS, INC.
GENERAL PARTNER

By: /s/ Andrew Gregoire

Name: Andrew Gregoire

Title: Chief Financial Officer

**Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the
Securities Exchange Act, as amended**

I, David L. Rogers, certify that:

1. I have reviewed this report on Form 10-Q of Life 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 officers 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):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: August 2, 2018

/s/ David L. Rogers

David L. Rogers

Chief Executive Officer

**Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the
Securities Exchange Act, as amended**

I, Andrew J. Gregoire, certify that:

1. I have reviewed this report on Form 10-Q of Life 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 officers 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):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: August 2, 2018

/s/ Andrew J. Gregoire

Andrew J. Gregoire

Chief Financial Officer

**Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the
Securities Exchange Act, as amended**

I, David L. Rogers, certify that:

1. I have reviewed this report on Form 10-Q of Life Storage LP;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 officers 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):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: August 2, 2018

/s/ David L. Rogers

David L. Rogers
Chief Executive Officer

**Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the
Securities Exchange Act, as amended**

I, Andrew J. Gregoire, certify that:

1. I have reviewed this report on Form 10-Q of Life Storage LP;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 officers 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):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: August 2, 2018

/s/ Andrew J. Gregoire

Andrew J. Gregoire

Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C.
Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Each of the undersigned of Life Storage, Inc. (the “Company”) does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- 1) The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); 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 2, 2018

/S/ David L. Rogers

David L. Rogers
Chief Executive Officer

/S/ Andrew J. Gregoire

Andrew J. Gregoire
Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C.
Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Each of the undersigned of Life Storage LP (the “Company”) does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- 1) The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); 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 2, 2018

/S/ David L. Rogers

David L. Rogers
Chief Executive Officer

/S/ Andrew J. Gregoire

Andrew J. Gregoire
Chief Financial Officer