CAPITAL MARKETS TECHNOLOGIES, INC.
Form 10QSB
November 14, 2007
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-QSB

**(Mark One)**

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

**FOR THE QUARTER ENDED JUNE 30, 2006**

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT**

**COMMISSION FILE NUMBER: 0-27382**

# CAPITAL MARKETS TECHNOLOGIES, INC.

**(Formerly Known as Fintech Group, Inc.; formerly known as Gentech Pharma, Inc.; formerly known as Netmaximizer.com, Inc. and formerly known as RLN Realty Associates, Inc.)**

**(Name of small business issuer as specified in its charter)**

| **FLORIDA** | **65-0907899** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **200 South Michigan, 21st Floor** | **60604** |

**CHICAGO, IL**
**(Address of principal executive offices)** **(Zip Code)**
**Issuer s Telephone Number: (312) 533-0230**

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x

**APPLICABLE ONLY TO CORPORATE ISSUERS**

**COMMON STOCK, PAR VALUE $.001**

**(Title of each class)**

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Number of shares of the issuer s common stock, par value $.001, outstanding as of November 14, 2007: 15,757,617 shares.

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes x No ¨

DOCUMENTS INCORPORATED BY REFERENCE: none

Transitional Small Business Disclosure Format YES ¨ NO x

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**CAPITAL MARKETS TECHNOLOGIES, INC.**

**(Development Stage Company)**

**BALANCE SHEET**

**As of June 30, 2006 and December 31, 2005**

| | June 30, 2006 | Dec. 31 2005 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ | $ |
| Total Current Assets | | $ |
| **LIABILITIES AND STOCKHOLDERS DEFICIENCY** | | |
| **CURRENT LIABILITIES** | | |
| Notes and accrued interest payable | $ 64,692 | $ 63,273 |
| Account payable | 557,310 | 557,310 |
| Total Current Liabilities | 622,002 | 620,583 |
| **STOCKHOLDERS DEFICIENCY** | | |
| Preferred stock | | |
| 10,000,000 shares authorized at $.001 par value; none outstanding | | |
| Common stock | | |
| 250,000,000 shares authorized at $.001 par value; 81,117 shares issued and outstanding | 30,081 | 81 |
| Capital in excess of par value | 11,772,539 | 11,772,539 |
| Accumulated deficit during development stage | (12,424,622) | (12,390,203) |
| Total Stockholders Deficiency | (622,002) | (620,583) |
| | $ | $ |

The accompanying notes are an integral part of these financial statements.

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**CA PITAL MARKETS TECHNOLOGIES, INC.**

**(Development Stage Company)**

**STATEMENTS OF OPERATIONS**

**For the three months ended June 30, 2006 and 2005**

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| **REVENUES** | $ | $ |
| **EXPENSES** | | |
| Administrative | 30,000 | |
| | 30,000 | |
| **NET OPERATING LOSS FROM OPERATIONS** | (30,000) | |
| **OTHER INCOME (LOSSES)** | | |
| Interest expense | (709) | (709) |
| **NET LOSS** | $ (30,709) | $ (709) |
| **NET LOSS PER COMMON SHARE** | | |
| Basic and diluted | $ (0.00) | $ (0.01) |
| **AVERAGE OUTSTANDING SHARES** stated in 1,000 s | | |
| Basic | 30,081 | 81 |

The accompanying notes are an integral part of these financial statements.

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**CAPITAL MARKETS TECHNOLOGIES, INC.**

**(Development Stage Company)**

**STATEMENTS OF OPERATIONS**

**For the six months ended June 30, 2006 and 2005**

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| **REVENUES** | $ | $ |
| **EXPENSES** | | |
| Administrative | 30,000 | |
| | 30,000 | |
| **NET OPERATING LOSS FROM OPERATIONS** | (30,000) | |
| **OTHER INCOME (LOSSES)** | | |
| Interest expense | (1,419) | (1,419) |
| **NET LOSS** | $ (31,419) | $ (1,419) |
| **NET LOSS PER COMMON SHARE** | | |
| Basic and diluted | $ (0.00) | $ (0.02) |
| **AVERAGE OUTSTANDING SHARES** stated in 1,000 s | | |
| Basic | 30,081 | 81 |

The accompanying notes are an integral part of these financial statements.

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**CAPITAL MARKETS TECHNOLOGIES, INC.**

**STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**

**(Development Stage Company)**

**Period June 29, 1995 (date of inception) to June 30, 2006**

| | Common Stock | | Capital in Excess of | |
|---|---|---|---|---|
| | **Shares** | **Amount** | **Par Value** | **Accumulated Deficit** |
| **Balance June 29, 1995** | | $ | $ | $ |
| Issuance of common stock for services | 6,000 | 6 | 4,994 | |
| Net loss for period ended December 31, 1995 | | | | (5,000) |
| Net loss for year ended December 31, 1996 | | | | |
| Net loss for year ended December 31, 1997 | | | | |
| Net loss for year ended December 31, 1998 | | | | (900) |
| Issuance of common stock for cash | 72,163 | 72 | 308,928 | |
| Issuance of common stock for services | 133 | | 288,000 | |
| Options granted for services | | | 6,466,293 | |
| Contributions to capital expenses | | | 174,000 | |
| Net loss for year ended December 31, 1999 | | | | (6,819,904) |
| Issuance of common stock for services | 100 | | 200,000 | |
| Amortize deferred compensation discount on note payable related party | | | 1,980,939 | |
| Net loss for year ended December 31, 2000 | | | | (3,323,139) |
| Issuance of common stock for cash | 2,174 | 2 | 1,937,386 | |
| Issuance of common stock for expenses | 173 | | 132,000 | |
| Issuance of common stock for cash | 374 | 1 | 279,999 | |
| Net loss for year ended December 31, 2001 | | | | (2,074,543) |
| Net loss for year ended December 31, 2002 | | | | (106,444) |
| Net loss for year ended December 31, 2003 | | | | (57,597) |
| Net loss for year ended December 31, 2004 | | | | (2,838) |
| Net loss for year ended December 31, 2005 | | | | (2,838) |
| Balance December 31, 2005 | 81,117 | $ 81 | $ 11,772,539 | $ (12,393,203) |
| Issuance of common stock for services | 30,000,000 | 30,000 | | |
| Net loss for period ended June 30, 2006 | | | | (31,419) |
| **Balance June 30, 2006** | 30,081,117 | $ 30,081 | $ 11,791,979 | $ (12,424,622) |

The accompanying notes are an integral part of these financial statements.

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**CAPITAL MARKETS TECHNOLOGIES, INC.**

**(Development Stage Company)**

**STATEMENT OF CASH FLOWS**

**For the six months ended June 30, 2006 and 2005**

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (31,419) | $ (1,419) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Changes in current assets and liabilities | 1,419 | 1,419 |
| Issuance of stock for services | 30,000 | |
| Net Cash Used in Operations | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase and transfer of equipment and web site | | |
| Net Increase (Decrease) in Cash | | |
| Cash at Beginning of Period | | |
| Cash at End of Period | $ | $ |

The accompanying notes are an integral part of these financial statements

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**CAPITAL MARKETS TECHNOLOGIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**1. ORGANIZATION**

The Company was incorporated under the laws of the State of Florida on June 29, 1995 with the name RLN Realty Associates, Inc with authorized common shares of 7,500 with a par value of $1.00. The Company had several name changes and authorized common share changes and on September 14, 2006 changed its name to Fintech Group, Inc. and changed its authorized common shares to 250,000,000 at a par value of $.001 and added authorized preferred shares of 10,000,000 at par value of $.001. The terms of the preferred shares have not been determined. On February 7, 2007 the name was changed to Capital Markets Technologies, Inc.

The principal business activity of the corporation was the development of an e-commerce web site and an e-commerce virtual department store. During 2001 the activity was discontinued and its remaining assets and related liabilities were transferred and the Company has remained inactive since that date.

The Company is a development stage company.

After 2001, the Company has been engaged in seeking viable business opportunities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Methods

The Company recognizes income and expenses based on the accrual method of accounting.

Dividend Policy

The Company has not adopted a policy regarding payment of dividends.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws that will be in effect, when the differences are expected to reverse. An allowance against deferred tax assets is recognized, when it is more likely than not, that such tax benefits will not be realized.

On June 30, 2006, the Company did not have a net operating loss available for carry forward.

Financial Instruments

The carrying amounts of financial instruments are considered by management to be their estimated fair values due to their short term maturities.

Basic and Diluted Net Income (Loss) Per Share

Basic net income (loss) per share amounts are computed based on the weighted average number of shares actually outstanding. Diluted net income (loss) per share amounts are computed using the weighted average number of common shares and common equivalent shares outstanding as if shares had been issued on the exercise of any common share rights unless the exercise becomes antidilutive and then only the basic per share amounts are shown in the report.

Concentration of Credit Risk

There are no financial instruments that potentially subject the Company to significant concentration of credit risks.

Revenue Recognition

Revenue will be recognized on the sale and delivery of a product or the completion of services provided.

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**CAPITAL MARKETS TECHNOLOGIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006 (continued)**

Advertising and Market Development

The company expenses advertising and market development costs as incurred.

Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of the assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing these financial statements.

Other Recent Accounting Pronouncements

The Company does not expect that the adoption of other recent accounting pronouncements will have a material impact on its financial statements.

**3. ACCOUNTS PAYABLE**

The Statute of Limitations has run on a substantial part of the accounts payable.

**4. CAPITAL STOCK**

During 2006 the Company issued 30,000,000 restricted common shares for services to control parties.

On November 2, 2005 the Company completed a reverse common stock split of one share for 500 outstanding shares. This report has been prepared showing post split shares from inception.

**5. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES**

Officers-directors have not acquired any shares of the Company s outstanding common stock, however, control parties have acquired 30,000,000 shares during 2006.

**6. GOING CONCERN**

The Company does not have the necessary working capital to service its debt and for its planned activity, which raises substantial doubt about its ability to continue as a going concern. Continuation of the Company as a going concern is dependent upon obtaining additional working capital and the management of the Company has developed a strategy, which it believes will accomplish this objective through settlement of its debt by the issuance of common shares, loans from related parties, and equity funding which will enable the Company to conduct operations for the coming year.

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

Management s discussion and analysis contains statements that are forward-looking and involve risks and uncertainties. Several factors could cause actual results to differ materially from those described in such forward-looking statements. This includes the Company s ability to manage growth, involvement in litigation, competition, ongoing contractual relationships, dependence upon key personnel, changes in customer demand for product and services, and the adoption of new, or changes in, accounting policies, practices and estimates and the application of such policies, practices, and estimates, and federal and state governmental regulation.

The following financial data should be read in conjunction with the financial statements of Capital Markets Technologies, Inc. related notes and other financial information appearing elsewhere in this report.

**OVERVIEW**

Capital Markets Technologies, Inc. (formerly known as Fintech Group, Inc.; Gentech Pharma, Inc.; Netmaximizer.com, Inc.;) ( CMT ) was incorporated in the State of Florida on June 29, 1995 under the name RLN Realty Associates, Inc. During 2002, we closed our business operations due to lack of funding.

**NET REVENUES**

We have had no revenues since 2002 when we closed our business operations.

**SELLING AND PROMOTION**

We have had no selling and promotion expense since we closed our business operations.

**OFFICE AND ADMINISTRATION**

In 2002, we closed our business operations.

**GAIN ON EXTINGUISHMENT OF DEBT**

In 2002, we closed our business operations due to lack of funding

**NET LOSS**

Our net loss for the quarter ended June 30, 2006 was $31,419 as a result of interest expense and management services.

**NET LOSS PER SHARE**

Net loss per share was $0.00 for the six months ended June 30, 2006.

**LIQUIDITY AND CAPITAL RESOURCES**

The company closed our business operations due to lack of funding.

In the past we were an e-commerce department store that sold a wide variety of consumer goods to members of affinity groups, paying a commission on those sales to the affinity group. In 2002, we ceased our business operations due to lack of funding.

During 2006, we changed our name to Fintech Group, Inc. and subsequently to Capital Markets Technologies, Inc. to reflect our current focus. We are a financial technology solutions company providing innovative solutions to global financial institutions and major corporations. The company currently is operating in Chicago, and with its proposed acquisition of Simplex Consulting will operate out of London, England as well. We were founded initially to capitalize on the estimated US$30 billion financial technology market opportunity which management believes exists within Europe between 2007 2010. Our management has an aggressive acquisitions strategy focusing on companies which are well positioned to take advantage of the paradigm shift occurring in the financial technology markets under the European Union regulatory directives: MiFID ( Markets in Financial Instruments Directive ) and SEPA (Single Euro Payments Area ).

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**Other Considerations**

There are numerous factors that affect the business and the results of its operations. Sources of these factors include general economic and business conditions, federal and state regulation of business activities, the level of demand for product services, the level and intensity of competition and the ability to develop new services based on new or evolving technology and the market s acceptance of those new services, the Company s ability to timely and effectively manage periodic product transitions, the services, customer and geographic sales mix of any particular period, and our ability to continue to improve our infrastructure including personnel and systems to keep pace with the Company s anticipated rapid growth.

**Item 3. Controls and Procedures.**

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Accounting Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act )). Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission under the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Chief Accounting Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting.

During the Quarter ended June 30, 2006, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports, filed pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

68,777

69,065

136,364

138,312

**Expenses:**

Property operations

20,941

| | |
|---|---|
| | 21,567 |
| | 42,897 |
| | 44,434 |
| Tenant reinsurance | |
| | 1,457 |
| | 1,471 |
| | 2,680 |
| | 2,732 |
| Unrecovered development and acquisition costs | |
| | 142 |
| | 18,801 |
| | 212 |
| | 18,883 |
| Severance costs | |

1,400

1,400

General and administrative

11,229

10,612

22,285

21,203

Depreciation and amortization

12,202

12,840

24,621

25,363

| | |
|---|---|
| Total expenses | 45,971 |
| | 66,691 |
| | 92,695 |
| | 114,015 |
| Income from operations | 22,806 |
| | 2,374 |
| | 43,669 |

24,297

Interest expense

(16,233

)

(15,816

)

(33,507

)

(31,611

)

Non-cash interest expense related to amortization of discount on exchangeable senior notes

(416

)

(563

)

(820

)

(1,404

)

Interest income

211

321

536

853

Interest income on note receivable from Preferred Operating Partnership unit holder

1,212

1,212

2,425

2,425

Gain on repurchase of exchangeable senior notes

5,093

27,576

Income (loss) before equity in earnings of real estate ventures and income tax expense

7,580

(7,379

)

12,303

22,136

Equity in earnings of real estate ventures

1,559

1,641

3,060

3,536

Income tax expense

(1,214

)

(943

)

(2,259

)

(1,591

)

**Net income (loss)**

7,925

(6,681

)

13,104

24,081

| | | | | |
|---|---|---|---|---|
| Net income allocated to Preferred Operating Partnership noncontrolling interests | (1,507) | (1,369) | (2,986) | (3,175) |
| Net (income) loss allocated to Operating Partnership and other noncontrolling interests | (238) | 509 | (370) | (828) |
| **Net income (loss) attributable to common stockholders** | $ 6,180 | $ (7,541) | | |

| | |
|---|---|
| $ | 9,748 |
| $ | 20,078 |

Net income (loss) per common share

Basic

$

0.07

$

(0.09

)

$

0.11

$

0.23

Diluted

$

0.07

$

(0.09

)

$

0.11

$

0.23

| | |
|---|---|
| Weighted average number of shares | |
| Basic | |
| | 87,367,967 |
| | 86,397,618 |
| | 87,122,064 |
| | 86,170,270 |

| | | | | |
|---|---|---|---|---|
| Diluted | 92,304,831 | 91,607,503 | 92,026,150 | 91,375,416 |
| **Cash dividends paid per common share** | $ 0.10 | $ | | |

| | |
|---|---|
| $ | 0.20 |
| $ | 0.25 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**Extra Space Storage Inc.**

**Condensed Consolidated Statement of Equity**

(amounts in thousands, except share data)

(unaudited)

| | Noncontrolling Interests | | | Extra Space Storage Inc. Stockholders Equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Preferred Operating Partnership | Operating Partnership | Other | Shares | Par Value | Paid-in Capital | Accumulated Other Comprehensive Deficit | Accumulated Deficit | Total Equity |
| **Balances at December 31, 2009** | $ 29,886 | $ 31,381 | $ 773 | 86,721,841 | $ 867 | $ 1,138,243 | $ (1,056) | $ (253,875) | $ 946,219 |
| Issuance of common stock upon the exercise of options | | | | 344,460 | 4 | 3,701 | | | 3,705 |
| Restricted stock grants issued | | | | 440,230 | 4 | | | | 4 |
| Restricted stock grants cancelled | | | | (24,628) | | | | | |
| Compensation expense related to stock-based awards | | | | | | 2,402 | | | 2,402 |
| Deconsolidation of noncontrolling interests | | | 104 | | | | | | 104 |
| Purchase of noncontrolling interest | | | 223 | | | | | | 223 |
| Comprehensive income: | | | | | | | | | |
| Net income (loss) | 2,986 | 404 | (34) | | | | | 9,748 | 13,104 |
| Change in fair value of interest rate swap | (42) | (151) | | | | | (3,633) | | (3,826) |
| Total comprehensive income | | | | | | | | | 9,278 |
| Tax effect from vesting of restricted stock grants and stock option exercises | | | | | | 976 | | | 976 |
| Tax effect from contribution of property to Taxable REIT Subsidiary | | | | | | (889) | | | (889) |
| Distributions to Operating Partnership units held by noncontrolling interests | (3,073) | (725) | | | | | | | (3,798) |
| Dividends paid on common stock at $0.20 per share | | | | | | | | (17,455) | (17,455) |
| **Balances at June 30, 2010** | $ 29,757 | $ 30,909 | $ 1,066 | 87,481,903 | $ 875 | $ 1,144,433 | $ (4,689) | $ (261,582) | $ 940,769 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**Extra Space Storage Inc.**
**Condensed Consolidated Statements of Cash Flows**
(amounts in thousands)
(unaudited)

| | Six months ended June 30, 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 13,104 | $ 24,081 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 24,621 | 25,363 |
| Amortization of deferred financing costs | 2,347 | 1,881 |
| Non-cash interest expense related to amortization of discount on exchangeable senior notes | 820 | 1,404 |
| Gain on repurchase of exchangeable senior notes | | (27,576) |
| Compensation expense related to stock-based awards | 2,402 | 2,160 |
| Unrecovered development and acquisition costs | | 18,883 |
| Severance costs | | 1,400 |
| Distributions from real estate ventures in excess of earnings | 3,095 | 3,136 |
| Changes in operating assets and liabilities: | | |
| Receivables from related parties and affiliated real estate joint ventures | 2,767 | (4,306) |
| Other assets | (65) | 465 |
| Accounts payable and accrued expenses | (1,193) | (1,762) |
| Other liabilities | (1,827) | 4,003 |
| Net cash provided by operating activities | 46,071 | 49,132 |
| **Cash flows from investing activities:** | | |
| Acquisition of real estate assets | (16,460) | (24,001) |
| Development and construction of real estate assets | (18,306) | (43,293) |
| Proceeds from sale of properties to joint venture (Note 4) | 15,750 | 4,652 |
| Investments in real estate ventures | (9,059) | (1,155) |
| Change in restricted cash | 5,509 | (2,239) |
| Purchase of equipment and fixtures | (1,115) | (471) |
| Net cash used in investing activities | (23,681) | (66,507) |
| **Cash flows from financing activities:** | | |
| Repurchase of exchangeable senior notes | | (80,853) |
| Proceeds from notes payable and lines of credit | 104,093 | 277,546 |
| Principal payments on notes payable and lines of credit | (210,647) | (81,592) |
| Deferred financing costs | (1,884) | (4,432) |
| Net proceeds from exercise of stock options | 3,705 | |
| Dividends paid on common stock | (17,455) | (21,526) |
| Distributions to noncontrolling interests in Operating Partnership | (3,798) | (4,189) |
| Net cash provided by (used in) financing activities | (125,986) | 84,954 |
| Net increase (decrease) in cash and cash equivalents | (103,596) | 67,579 |
| Cash and cash equivalents, beginning of the period | 131,950 | 63,972 |
| Cash and cash equivalents, end of the period | $ 28,354 | $ 131,551 |

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**Extra Space Storage Inc.**
**Condensed Consolidated Statements of Cash Flows**
(amounts in thousands)
(unaudited)

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | | 2010 | | 2009 |
| **Supplemental schedule of cash flow information** | | | | |
| Interest paid, net of amounts capitalized | $ | 31,723 | $ | 30,931 |
| | | | | |
| **Supplemental schedule of noncash investing and financing activities:** | | | | |
| | | | | |
| Deconsolidation of joint ventures due to application of Accounting Standards Codification 810: | | | | |
| Real estate assets, net | $ | (42,739) | $ | |
| Investments in real estate ventures | | 404 | | |
| Receivables from related parties and affiliated real estate joint ventures | | 21,142 | | |
| Other assets and other liabilities | | (51) | | |
| Notes payable | | 21,348 | | |
| Other noncontrolling interests | | (104) | | |
| Conversion of Operating Partnership units held by noncontrolling interests for common stock | $ | | $ | 1,003 |
| Acquisitions of real estate assets | | | | |
| Real estate assets, net | $ | 6,475 | $ | |
| Notes payable | | (6,475) | | |

See accompanying notes to unaudited condensed consolidated financial statements.

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**EXTRA SPACE STORAGE INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**Amounts in thousands, except property and share data**

**1. ORGANIZATION**

Extra Space Storage Inc. (the Company ) is a self-administered and self-managed real estate investment trust ( REIT ), formed as a Maryland corporation on April 30, 2004 to own, operate, manage, acquire, develop and redevelop professionally managed self-storage facilities located throughout the United States. The Company continues the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977. The Company s interest in its properties is held through its operating partnership, Extra Space Storage LP (the Operating Partnership ), which was formed on May 5, 2004. The Company s primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To the extent the Company continues to qualify as a REIT, it will not be subject to tax, with certain limited exceptions, on the taxable income that is distributed to its stockholders.

The Company invests in self-storage facilities by acquiring or developing wholly-owned facilities or by acquiring an equity interest in real estate entities. At June 30, 2010, the Company had direct and indirect equity interests in 649 operating storage facilities located in 33 states and Washington, D.C. In addition, the Company managed 140 properties for franchisees and third parties, bringing the total number of operating properties which it owns and/or manages to 789.

The Company operates in three distinct segments: (1) property management, acquisition and development; (2) rental operations; and (3) tenant reinsurance. The Company s property management, acquisition and development activities include managing, acquiring, developing and selling self-storage facilities. On June 2, 2009, the Company announced the wind-down of its development activities. As of June 30, 2010, there were seven development projects in process that the Company expects to complete by the end of the second quarter of 2011. The rental operations activities include rental operations of self-storage facilities. No single tenant accounts for more than 5% of rental income. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in the Company s self storage facilities.

**2. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of the Company are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they may not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of results that may be expected for the year ended December 31, 2010. The Condensed Consolidated Balance Sheet as of December 31, 2009 has been derived from the Company s audited financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission ( SEC ).

**Recently Issued Accounting Standards**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued changes to Accounting Standards Codification ( ASC ) 810, *Consolidation,* which amended guidance for determining whether an entity is a variable interest entity ( VIE ), and requires the performance of a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE. Under this guidance, an entity would be required to consolidate a VIE if it has (i) the power to direct the activities that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. This guidance is effective for the first annual reporting period that begins after November 15, 2009, with early adoption prohibited. The Company adopted this guidance effective January 1, 2010 and reviewed the terms for all joint ventures in relation to the new guidance. As a result of this analysis, the Company determined that five joint ventures that were consolidated under the previous accounting guidance should be deconsolidated as of January 1, 2010. The assets and liabilities associated with these joint ventures were removed from the Company s financial statements and the Company s investments in these joint ventures were recorded under the equity method of accounting during the three and six months ended June 30, 2010.

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**Reclassifications**

Certain amounts in the 2009 financial statements and supporting note disclosures have been reclassified to conform to the current year presentation. Such reclassifications did not impact previously reported net income (loss) or accumulated deficit.

**Fair Value Disclosures**

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The following table provides information for each major category of assets and liabilities that are measured at fair value on a recurring basis:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| **Description** | **June 30, 2010** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Other liabilities - Swap Agreement 1 | $ (1,820) | $ | $ (1,820) | $ |
| Other liabilities - Swap Agreement 2 | (1,427) | | (1,427) | |
| Other liabilities - Swap Agreement 3 | (718) | | (718) | |
| Other liabilities - Swap Agreement 4 | (465) | | (465) | |
| Other liabilities - Swap Agreement 5 | (507) | | (507) | |
| Total | $ (4,937) | $ | $ (4,937) | $ |

The fair value of our derivatives is based on quoted market prices of similar instruments from various banking institutions or an independent third party provider for similar instruments. In determining the fair value, we consider our non-performance risk and that of our counterparties.

The Company did not have any significant assets or liabilities that are re-measured on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2010.

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Long-lived assets held for use are evaluated for impairment when events or circumstances indicate there may be impairment. The Company reviews each self-storage facility at least annually to determine if any such events or circumstances have occurred or exist. The Company focuses on facilities where occupancy and/or rental income have decreased by a significant amount. For these facilities, the Company determines whether the decrease is temporary or permanent and whether the facility will likely recover the lost occupancy and/or revenue in the short term. In addition, the Company carefully reviews facilities in the lease-up stage and compares actual operating results to original projections.

When the Company determines that an event that may indicate impairment has occurred, the Company compares the carrying value of the related long-lived assets to the undiscounted future net operating cash flows attributable to the assets. An impairment loss is recorded if the net carrying value of the assets exceeds the undiscounted future net operating cash flows attributable to the assets. The impairment loss recognized equals the excess of net carrying value over the related fair value of the assets.

When real estate assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the fair value of the assets, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified as held for sale is less than the net carrying value of the assets, then a valuation allowance is established. The operations of assets held for sale or sold during the period are generally presented as discontinued operations for all periods presented.

The Company assesses whether there are any indicators that the value of its investments in unconsolidated real estate ventures may be impaired annually and when events or circumstances indicate there may be impairment. An investment is impaired if the Company s estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and is considered to be other-than-temporary, the loss is measured as the excess of the carrying amount over the fair value of the investment.

The Company treats property acquisitions as businesses and records the assets and liabilities at their fair values as of the acquisition date. Acquisition-related transaction costs are expensed as incurred. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values based on the avoided cost to replace the current leases. The Company measures the

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value of tenant relationships based on the Company s historical experience with turnover in its facilities. Debt assumed as part of an acquisition is recorded at fair value based on current interest rates compared to contractual rates.

On June 2, 2009, the Company announced the wind-down of its development activities. As a result of this decision, the Company reviewed its properties under construction, unimproved land and its investments in development joint ventures for potential impairments. This review included the preparation of updated models based on current market conditions, obtaining appraisals and reviewing recent sales and list prices of undeveloped land and mature self storage facilities. Based on this review, the Company identified certain assets as being impaired. The impairments relating to long lived assets where the Company intends to complete the development and hold the asset are the result of the estimated future undiscounted cash flows being less than the current carrying value of the assets. The Company compared the carrying value of certain undeveloped land and seven vacant condominiums that the Company intends to sell to the fair value of similar undeveloped land and condominiums. For the assets that the Company intends to sell, where the current estimated fair market value less costs to sell was below the carrying value, the Company reduced the carrying value of the assets to the current fair market value less selling costs and recorded an impairment charge. These assets are classified as held for sale. The impairments relating to investments in development joint ventures are the result of the Company comparing the estimated current fair value to the carrying value of the investment. For those investments in development joint ventures where the current estimated fair market value was below the carrying value, the Company reduced the investment to the current fair market value through an impairment charge. Losses relating to changes in fair value have been included in unrecovered development and acquisition costs on the Company s condensed consolidated statements of operations.

*Fair Value of Financial Instruments*

The carrying values of cash and cash equivalents, restricted cash, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable rate notes payable, lines of credit and other liabilities reflected in the condensed consolidated balance sheets at June 30, 2010 and December 31, 2009 approximate fair value. The fair values of the Company s notes receivable and fixed rate notes payable are as follows:

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Note receivable from Preferred Operating Partnership unit holder | $ 118,382 | $ 100,000 | $ 112,740 | $ 100,000 |
| Fixed rate notes payable and notes payable to trusts | $ 836,720 | $ 748,770 | $ 1,067,653 | $ 1,015,063 |
| Exchangeable senior notes | $ 124,384 | $ 87,663 | $ 110,122 | $ 87,663 |

**3. NET INCOME (LOSS) PER COMMON SHARE**

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average common shares outstanding including unvested share based payment awards that contain a non-forfeitable right to dividends or dividend equivalents. Diluted net income (loss) per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the weighted average number of basic shares and the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued and is calculated using either the treasury stock or if-converted method. Potential common shares are securities (such as options, warrants, convertible debt, exchangeable Series A Participating Redeemable Preferred Operating Partnership units ( Preferred OP units ) and exchangeable Operating

Partnership units ( OP units )) that do not have a current right to participate in earnings but could do so in the future by virtue of their option or conversion right. In computing the dilutive effect of convertible securities, net income (loss) is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per share, only potential common shares that are dilutive, those which reduce earnings per share, are included.

The Company s Operating Partnership has $87,663 of exchangeable senior notes issued and outstanding as of June 30, 2010 that also can potentially have a dilutive effect on its earnings per share calculations. The exchangeable senior notes are exchangeable by holders into shares of the Company s common stock under certain circumstances per the terms of the indenture governing the exchangeable senior notes. The exchangeable senior notes are not exchangeable unless the price of the Company s common stock is greater than or equal to 130% of the applicable exchange price for a specified period during a quarter, or unless certain other events occur. The exchange price was $23.45 per share at June 30, 2010, and could change over time as described in the indenture. The price of the

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Company s common stock did not exceed 130% of the exchange price for the specified period of time during the second quarter of 2010; therefore holders of the exchangeable senior notes may not elect to convert them during the third quarter of 2010.

The Company has irrevocably agreed to pay only cash for the accreted principal amount of the exchangeable senior notes relative to its exchange obligations, but has retained the right to satisfy the exchange obligations in excess of the accreted principal amount in cash and/or common stock. Though the Company has retained that right, ASC 260, *Earnings per Share,* requires an assumption that shares will be used to pay the exchange obligations in excess of the accreted principal amount, and requires that those shares be included in the Company s calculation of weighted average common shares outstanding for the diluted earnings per share computation. No shares were included in the computation for the three and six months ended June 30, 2010 or 2009 because there was no excess over the accreted principal for these periods.

For the purposes of computing the diluted impact on earnings per share of the potential conversion of Preferred OP units into common shares, where the Company has the option to redeem in cash or shares and where the Company has stated the positive intent and ability to settle at least $115,000 of the instrument in cash (or net settle a portion of the Preferred OP units against the related outstanding note receivable), only the amount of the instrument in excess of $115,000 is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by ASC 260-10-45-46.

For the three months ended June 30, 2010 and 2009, options to purchase 1,902,695 and 5,698,996 shares of common stock and for the six months ended June 30, 2010 and 2009, 2,387,550 and 5,773,724 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive. All restricted stock grants have been included in basic and diluted shares outstanding because such shares earn a non-forfeitable dividend and carry voting rights.

The computation of net income (loss) per common share is as follows:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net income (loss) attributable to common stockholders | $ 6,180 | $ (7,541) | $ 9,748 | $ 20,078 |
| Add: Income allocated to noncontrolling interest - Preferred Operating Partnership and Operating Partnership | 1,762 | 1,082 | 3,390 | 4,473 |
| Subtract: Fixed component of income allocated to noncontrolling interest - Preferred Operating Partnership | (1,437) | (1,438) | (2,875) | (2,875) |
| Net income (loss) for diluted computations | $ 6,505 | $ (7,897) | $ 10,263 | $ 21,676 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Average number of common shares outstanding - basic | 87,367,967 | 86,397,618 | 87,122,064 | 86,170,270 |
| Operating Partnership units | 3,627,368 | 4,150,040 | 3,627,368 | 4,150,040 |
| Preferred Operating Partnership units | 989,980 | 989,980 | 989,980 | 989,980 |
| Dilutive and cancelled stock options | 319,516 | 69,865 | 286,738 | 65,126 |
| Average number of common shares outstanding - diluted | 92,304,831 | 91,607,503 | 92,026,150 | 91,375,416 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income (loss) per common share | | | | | | | | |
| Basic | $ | 0.07 | $ | (0.09) | $ | 0.11 | $ | 0.23 |
| Diluted | $ | 0.07 | $ | (0.09) | $ | 0.11 | $ | 0.23 |

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## 4. REAL ESTATE ASSETS

The components of real estate assets are summarized as follows:

| | | June 30, 2010 | | December 31, 2009 |
|---|---|---|---|---|
| Land - operating | $ | 489,636 | $ | 501,674 |
| Land - development | | 9,962 | | 32,635 |
| Buildings and improvements | | 1,568,660 | | 1,675,340 |
| Intangible assets - tenant relationships | | 31,054 | | 33,463 |
| Intangible lease rights | | 6,150 | | 6,150 |
| | | 2,105,462 | | 2,249,262 |
| Less: accumulated depreciation and amortization | | (238,217) | | (233,830) |
| Net operating real estate assets | | 1,867,245 | | 2,015,432 |
| Real estate under development | | 29,079 | | 34,427 |
| Net real estate assets | $ | 1,896,324 | $ | 2,049,859 |
| | | | | |
| Real estate assets held for sale included in net real estate assets | $ | 11,275 | $ | 11,275 |

Real estate assets held for sale include five parcels of vacant land and seven vacant condominiums.

On January 21, 2010, the Company entered into a joint venture with Harrison Street Real Estate Capital, LLC ( Harrison Street ). Harrison Street contributed $15,750 in cash to the joint venture in return for a 50% ownership interest. The Company contributed 19 wholly-owned properties at a fair market value of approximately $132,000 and received $15,750 in cash and a 50% ownership interest in the joint venture. There was no step up in basis for the 50% ownership retained by the Company. The joint venture assumed $101,000 of existing debt which is secured by the properties. The properties are located in California, Florida, Nevada, Ohio, Pennsylvania, Tennessee, Texas and Virginia. The Company deconsolidated the 19 properties and will continue to manage the properties in exchange for a management fee.

The transaction met all of the criteria for sale accounting and profit recognition under the partial sale criteria of ASC 360-40, *Real Estate Sales,* except for a provision in the agreement that was deemed to be a seller guarantee. Accordingly, the Company was required to assess the substance of the transaction to determine, first whether it was a sale, and second, whether there could be any partial profit recognition. Based on its review of the terms of the arrangement and a review of the property operating projections, the Company concluded that the transaction qualified as a sale and could potentially qualify for some profit recognition under the cost recovery or installment methods; however, because there are preferences on cash distributions, the Company can only recognize profit to the extent that the $15,750 invested by Harrison Street exceeded 100% of the Company s basis. Since the Company s basis was in excess of the $15,750, there was no profit recognition even though the transaction qualified for sale accounting. The Company recorded the deferred gain of $3,951 as a reduction of its investment in the joint venture with Harrison Street. The Company applied the guidance under ASC 810 and concluded that the joint venture with Harrison Street should be accounted for under the equity method of accounting.

## 5. PROPERTY ACQUISITIONS

The following table summarizes the Company s acquisitions of operating properties for the six months ended June 30, 2010, and does not include purchases of raw land or improvements made to existing assets:

| | | | Consideration Paid | | | | Acquisition Date Fair Value | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Property Location** | **Number of Properties** | **Date of Acquisition** | **Total Paid** | **Cash Paid** | **Loan Assumed** | **Net Liabilities/ (Assets) Assumed** | **Land** | **Building** | **Intangible** | **Closing costs - expensed** | **Source of Acquisition** |
| New York | 1 | 5/21/2010 | $ 9,629 | $ 3,231 | $ 6,475 | $ (77) | $ 2,802 | $ 6,536 | $ 220 | $ 71 | Unrelated third party |
| Georgia | 3 | 6/17/2010 | 7,661 | 7,551 | | 110 | 2,769 | 4,487 | 318 | 87 | Unrelated third party |

The Company treats property acquisitions as businesses and records the assets and liabilities at their fair values as of the acquisition date. Acquisition-related transaction costs are expensed as incurred.

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## 6. INVESTMENTS IN REAL ESTATE VENTURES

Investments in real estate ventures consisted of the following:

| | Equity Ownership % | Excess Profit Participation % | Investment balance at June 30, 2010 | Investment balance at December 31, 2009 |
|---|---|---|---|---|
| Extra Space West One LLC ( ESW ) | 5% | 40% | $ 7,977 | $ 1,175 |
| Extra Space West Two LLC ( ESW II ) | 5% | 40% | 4,686 | 4,749 |
| Extra Space Northern Properties Six LLC ( ESNPS ) | 10% | 35% | 1,237 | 1,388 |
| Extra Space of Santa Monica LLC ( ESSM ) | 48% | 48% | 3,717 | 2,419 |
| Clarendon Storage Associates Limited Partnership ( Clarendon ) | 50% | 50% | 3,213 | 3,245 |
| HSRE-ESP IA, LLC ( HSRE ) | 50% | 50% | 12,753 | |
| PRISA Self Storage LLC ( PRISA ) | 2% | 17% | 11,594 | 11,907 |
| PRISA II Self Storage LLC ( PRISA II ) | 2% | 17% | 10,171 | 10,239 |
| PRISA III Self Storage LLC ( PRISA III ) | 5% | 20% | 3,692 | 3,793 |
| VRS Self Storage LLC ( VRS ) | 45% | 9% | 45,005 | 45,579 |
| WCOT Self Storage LLC ( WCOT ) | 5% | 20% | 4,900 | 4,983 |
| Storage Portfolio I LLC ( SP I ) | 25% | 25-40% | 15,420 | 16,049 |
| Storage Portfolio Bravo II ( SPB II ) | 20% | 20-45% | 14,917 | 15,104 |
| Extra Space Joint Ventures with Everest Real Estate Fund ( Everest ) | 10-58% | 35-50% | 5,584 | 1,558 |
| U-Storage de Mexico S.A. and related entities ( U-Storage ) | 40% | 40% | 6,171 | 6,166 |
| Other minority owned properties | 10-70% | 10-50% | 1,939 | 2,095 |
| | | | $ 152,976 | $ 130,449 |

In these joint ventures, the Company and the joint venture partner generally receive a preferred return on their invested capital. To the extent that cash/profits in excess of these preferred returns are generated through operations or capital transactions, the Company would receive a higher percentage of the excess cash/profits than its equity interest.

In accordance with ASC 810, the Company reviews all of its joint venture relationships quarterly to ensure that there are no entities that require consolidation. As of June 30, 2010, there were no entities that were required to be consolidated as a result of this review.

On June 15, 2010, the Company paid $193 to obtain an additional 7.2% percentage interest in ESSM, increasing the Company s interest in the venture from 41.0% to 48.2%.

On June 28, 2010, the Company contributed $6,660 to ESW as a result of a capital call related to the joint venture s repayment of its $16,650 loan.

The components of equity in earnings of real estate ventures consist of the following:

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---|---|---|---|---|
| Equity in earnings of ESW | $ 313 | $ 275 | $ 603 | $ 584 |
| Equity in losses of ESW II | (5) | (6) | (15) | (10) |
| Equity in earnings of ESNPS | 59 | 49 | 108 | 96 |
| Equity in losses of ESSM | (41) | | (98) | |
| Equity in earnings of Clarendon | 100 | 89 | 191 | 184 |
| Equity in losses of HSRE | (100) | | (38) | |
| Equity in earnings (losses) of PRISA | 159 | (20) | 311 | 147 |
| Equity in earnings of PRISA II | 139 | 140 | 267 | 277 |
| Equity in earnings of PRISA III | 65 | 59 | 122 | 116 |
| Equity in earnings of VRS | 527 | 527 | 1,049 | 1,052 |
| Equity in earnings of WCOT | 61 | 61 | 119 | 129 |
| Equity in earnings of SP I | 231 | 230 | 407 | 465 |
| Equity in earnings of SPB II | 61 | 108 | 82 | 234 |
| Equity in earnings (losses) of Everest | 31 | (3) | 86 | (25) |
| Equity in earnings (losses) of U-Storage | (5) | (1) | 5 | 9 |
| Equity in earnings (losses) of other minority owned properties | (36) | 133 | (139) | 278 |
| | $ 1,559 | $ 1,641 | $ 3,060 | $ 3,536 |

Equity in earnings (losses) of ESW II, HSRE, SP I and SPB II and a minority owned property in Annapolis, Maryland includes the amortization of the Company s excess purchase price of $26,075 of these equity investments over its original basis. The excess basis is amortized over 40 years.

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*Variable Interests in Unconsolidated Real Estate Joint Ventures:*

The Company has interests in four unconsolidated joint ventures with unrelated third parties which are VIEs ( the VIE JVs ). The Company holds 18-70% equity interests in the VIE JVs, and has 50% of the voting rights in each of the VIE JVs. Qualification as a VIE was based on the determination that the equity investments at risk for each of these joint ventures was not sufficient based on a qualitative and quantitative analysis performed by the Company. The Company performed a qualitative analysis for these joint ventures to determine which party was the primary beneficiary of each VIE. The Company determined that since the powers to direct the activities most significant to the economic performance of these entities are shared equally by the Company and its joint venture partners, there is no primary beneficiary. Accordingly, these interests are recorded using the equity method.

The VIE JVs each own a single pre-stabilized self-storage property. These joint ventures are financed through a combination of (1) equity contributions from the Company and its joint venture partners, (2) mortgage notes payable and (3) payables to the Company for working capital. The payables to the Company are generally amounts owed for expenses paid on behalf of the joint ventures by the Company as manager. The Company performs management services for the VIE JVs in exchange for a management fee of approximately 6% of cash collected by the properties. The Company has not provided financial or other support during the periods presented to the VIE JVs that it was not previously contractually obligated to provide.

The Company guarantees the mortgage notes payable for the VIE JVs. The Company s maximum exposure to loss for these joint ventures as of June 30, 2010 is the total of the guaranteed loan balances, the payables due to the Company and the Company s investment balances in the joint ventures. The Company believes that the risk of incurring a loss as a result of having to perform on the loan guarantees is unlikely and therefore no liability has been recorded related to these guarantees. Also, repossessing and/or selling the self-storage facility and land that collateralize the loans could provide funds sufficient to reimburse the Company. Additionally, the Company believes the payables to the Company are collectible. The following table compares the liability balance and the maximum exposure to loss related to the VIE JVs as of June 30, 2010:

| | Liability Balance | Investment Balance | Balance of Guaranteed Loan | Payables to Company | Maximum Exposure to Loss | Difference |
|---|---|---|---|---|---|---|
| Extra Space of Elk Grove | $ | $ 544 | $ 4,773 | $ 2,856 | $ 8,173 | $ (8,173) |
| ESS of Sacramento One LLC | | (716) | 5,000 | 1,571 | 5,855 | (5,855) |
| ES of Washington Avenue LLC | | 468 | 6,051 | 2,868 | 9,387 | (9,387) |
| ES of Franklin Blvd LLC | | (265) | 5,234 | 2,219 | 7,188 | (7,188) |
| | $ | $ 31 | $ 21,058 | $ 9,514 | $ 30,603 | $ (30,603) |

The Company had no consolidated VIEs during the three and six months ended June 30, 2010.

**7. OTHER ASSETS**

The components of other assets are summarized as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Equipment and fixtures | $ 12,722 | $ 11,836 |
| Less: accumulated depreciation | (9,650) | (9,046) |
| Other intangible assets | 3,343 | 3,303 |
| Deferred financing costs, net | 14,400 | 15,458 |
| Prepaid expenses and deposits | 5,120 | 5,173 |
| Accounts receivable, net | 12,855 | 15,086 |
| Investments in Trusts | 3,590 | 3,590 |
| Deferred tax asset | 4,793 | 5,576 |
| | $ 47,173 | $ 50,976 |

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**8. NOTES PAYABLE**

The components of notes payable are summarized as follows:

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| **Fixed Rate** | | | | |
| Mortgage and construction loans with banks (inclulding loans subject to interest rate swaps) bearing interest at fixed rates between 4.24% and 7.30%. The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between June 2011 and August 2019. | $ | 629,180 | $ | 895,473 |
| **Variable Rate** | | | | |
| Mortgage and construction loans with banks bearing floating interest rates based on LIBOR and Prime. Interest rates based on LIBOR are between LIBOR plus 1.45% (1.80% and 1.68% at June 30, 2010 and December 31, 2009, respectively) and LIBOR plus 4.00% (4.35% and 4.23% at June 30, 2010 and December 31, 2009, respectively). Interest rates based on Prime are at Prime plus 0.50% (3.75% at June 30, 2010 and December 31, 2009), and 1.50% (4.75% at June 30, 2010 and December 31, 2009). The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between December 2010 and May 2015. | | 207,986 | | 204,120 |
| | $ | 837,166 | $ | 1,099,593 |

Certain mortgage and construction loans with variable rate debt are subject to interest rate floors starting at 4.5%.

Real estate assets are pledged as collateral for the notes payable. Also, certain of these notes payable are cross-collateralized with other properties. Although the majority of the $837,166 of fixed and variable rate mortgage and construction loans payable are non-recourse, $391,172 of such mortgage loans are recourse due to guarantees or other security provisions. The Company is subject to certain restrictive covenants relating to the outstanding notes payable. The Company was in compliance with all financial covenants at June 30, 2010.

**9. DERIVATIVES**

GAAP requires the recognition of all derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. A company must designate each qualifying hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in foreign operation.

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate risk associated with Company s fixed and variable-rate borrowings. The Company designates certain interest rate swaps as cash flow hedges of variable-rate borrowings and the remainder as fair value hedges of fixed-rate borrowings.

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The following table summarizes the terms of the Company s derivative financial instruments at June 30, 2010:

| Hedge Product | Hedge Type | | Notional Amount | Strike | Effective Date | Maturity |
|---|---|---|---|---|---|---|
| Reverse Swap Agreement | Fair Value | $ | 61,770 | Libor plus 0.65% | 10/31/2004 | 6/1/2009 |
| Swap Agreement 1 | Cash Flow | $ | 63,000 | 4.24% | 2/1/2009 | 6/30/2013 |
| Swap Agreement 2 | Cash Flow | $ | 26,000 | 6.32% | 7/1/2009 | 7/1/2014 |
| Swap Agreement 3 | Cash Flow | $ | 8,462 | 6.98% | 7/27/2009 | 6/27/2016 |
| Swap Agreement 4 | Cash Flow | $ | 10,000 | 6.12% | 11/2/2009 | 11/1/2014 |
| Swap Agreement 5 | Cash Flow | $ | 20,700 | 5.80% | 6/11/2010 | 6/1/2015 |

Monthly interest payments were recognized as an increase or decrease in interest expense as follows:

| | Classification of | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|
| Type | Income (Expense) | | 2010 | | 2009 | | 2010 | | 2009 |
| Reverse Swap Agreement | Interest expense | $ | | $ | 495 | $ | | $ | 916 |
| Swap Agreement 1 | Interest expense | | (315) | | (244) | | (628) | | (244) |
| Swap Agreement 2 | Interest expense | | (185) | | | | (368) | | |
| Swap Agreement 3 | Interest expense | | (74) | | | | (144) | | |
| Swap Agreement 4 | Interest expense | | (66) | | | | (132) | | |
| Swap Agreement 5 | Interest expense | | | | | | | | |
| | | $ | (640) | $ | 251 | $ | (1,272) | $ | 672 |

Information relating to the gains recognized on the swap agreements is as follows:

| Type | | Gain (loss) recognized in OCI June 30, 2010 | Location of amounts reclassified from OCI into income | | Gain (loss) reclassified from OCI Six months ended June 30, 2010 |
|---|---|---|---|---|---|
| Swap Agreement 1 | $ | (1,820) | Interest expense | | (628) |
| Swap Agreement 2 | | (1,427) | Interest expense | | (368) |
| Swap Agreement 3 | | (718) | Interest expense | | (144) |
| Swap Agreement 4 | | (465) | Interest expense | | (132) |
| Swap Agreement 5 | | (507) | Interest expense | | |
| | $ | (4,937) | | $ | (1,272) |

The Swap Agreements were highly effective for the six months ended June 30, 2010. The losses reclassified from other comprehensive income ( OCI ) in the preceding table represent the effective portion of the Company s cash flow hedges reclassified from OCI to interest expense during the six months ended June 30, 2010.

The balance sheet classification and carrying amounts of the interest rate swaps are as follows:

| | Asset (Liability) Derivatives | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2010 | | | December 31, 2009 | | |
| **Derivatives designated as hedging instruments:** | **Balance Sheet Location** | | **Fair Value** | **Balance Sheet Location** | | **Fair Value** |
| Swap Agreement 1 | Other liabilities | $ | (1,820) | Other liabilities | $ | (340) |
| Swap Agreement 2 | Other liabilities | | (1,427) | Other liabilities | | (478) |
| Swap Agreement 3 | Other liabilities | | (718) | Other liabilities | | (244) |
| Swap Agreement 4 | Other liabilities | | (465) | Other liabilities | | (49) |
| Swap Agreement 5 | Other liabilities | | (507) | N/A | | |
| | | $ | (4,937) | | $ | (1,111) |

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**10. NOTES PAYABLE TO TRUSTS**

During July 2005, ESS Statutory Trust III (the Trust III ), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership, issued an aggregate of $40,000 of preferred securities which mature on July 31, 2035. In addition, the Trust III issued 1,238 of Trust common securities to the Operating Partnership for a purchase price of $1,238. On July 27, 2005, the proceeds from the sale of the preferred and common securities of $41,238 were loaned in the form of a note to the Operating Partnership ( Note 3 ). Note 3 has a fixed rate of 6.91% through July 31, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum. The interest on Note 3, payable quarterly, will be used by the Trust III to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after July 27, 2010.

During May 2005, ESS Statutory Trust II (the Trust II ), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership, issued an aggregate of $41,000 of preferred securities which mature on June 30, 2035. In addition, the Trust II issued 1,269 of Trust common securities to the Operating Partnership for a purchase price of $1,269. On May 24, 2005, the proceeds from the sale of the preferred and common securities of $42,269 were loaned in the form of a note to the Operating Partnership ( Note 2 ). Note 2 had a fixed rate of 6.67% through June 30, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum effective until maturity. The interest on Note 2, payable quarterly, will be used by the Trust II to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

During April 2005, ESS Statutory Trust I (the Trust ), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership issued an aggregate of $35,000 of trust preferred securities which mature on June 30, 2035. In addition, the Trust issued 1,083 of trust common securities to the Operating Partnership for a purchase price of $1,083. On April 8, 2005, the proceeds from the sale of the trust preferred and common securities of $36,083 were loaned in the form of a note to the Operating Partnership (the Note ). The Note has a variable rate equal to the three-month LIBOR plus 2.25% per annum. Effective June 30, 2010, the Trust entered into a interest rate swap that fixes the interest rate to be paid at 5.62% and matures on June 30, 2015. The interest on the Note, payable quarterly, will be used by the Trust to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

The Trust, Trust II and Trust III are VIEs because the holders of the equity investment at risk (the trust preferred securities) do not have the power to direct the activities of the entities that most significantly affect the entities economic performance because of their lack of voting or similar rights. Because the Operating Partnership s investment in the trusts common securities was financed directly by the trusts as a result of its loan of the proceeds to the Operating Partnership, that investment is not considered to be an equity investment at risk. The Operating Partnership s investment in the trusts is not a variable interest because equity interests are variable interests only to the extent that the investment is considered to be at risk, and therefore the Operating Partnership cannot be the primary beneficiary of the trusts. Since the Company is not the primary beneficiary of the trusts, they have not been consolidated. A debt obligation has been recorded in the form of notes as discussed above for the proceeds, which are owed to the Trust, Trust II and Trust III by the Company. The Company has also recorded its investment in the trusts common securities as other assets.

The Company has not provided financing or other support during the periods presented to the trusts that it was not previously contractually obligated to provide. The Company s maximum exposure to loss as a result of its involvement with the trusts is equal to the total amount of the notes discussed above less the amounts of the Company s investments in the trusts common securities. The net amount is the notes payable that the trusts owe to third parties for their investments in the trusts preferred securities. Following is a tabular comparison of the liabilities the Company has recorded as a result of its involvements with the trusts to the maximum exposure to loss the Company is subject to related to the trusts as of June 30, 2010:

| | Notes payable to Trusts as of June 30, 2010 | Maximum exposure to loss | Difference |
|---|---|---|---|
| Trust | $ 36,083 | $ 35,000 | $ 1,083 |
| Trust II | 42,269 | 41,000 | 1,269 |
| Trust III | 41,238 | 40,000 | 1,238 |
| | $ 119,590 | $ 116,000 | $ 3,590 |

As noted above, these differences represent the amounts that the trusts would repay the Company for its investment in the trusts common securities.

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**11. EXCHANGEABLE SENIOR NOTES**

On March 27, 2007, our Operating Partnership issued $250,000 of its 3.625% Exchangeable Senior Notes due April 1, 2027 (the Notes ). Costs incurred to issue the Notes were approximately $5,700. The remaining portion of these costs are being amortized over five years, which represents the estimated term of the Notes, and are included in other assets in the condensed consolidated balance sheet as of June 30, 2010. The Notes are general unsecured senior obligations of the Operating Partnership and are fully guaranteed by the Company. Interest is payable on April 1 and October 1 of each year until the maturity date of April 1, 2027. The Notes bear interest at 3.625% per annum and contain an exchange settlement feature, which provides that the Notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the Notes) and, with respect to any excess exchange value, for cash, shares of our common stock or a combination of cash and shares of our common stock at an exchange rate of approximately 42.6491 shares per one thousand dollars principal amount of Notes at the option of the Operating Partnership.

The Operating Partnership may redeem the Notes at any time to preserve the Company s status as a REIT. In addition, on or after April 5, 2012, the Operating Partnership may redeem the Notes for cash, in whole or in part, at 100% of the principal amount plus accrued and unpaid interest, upon at least 30 days but not more than 60 days prior written notice to holders of the Notes.

The holders of the Notes have the right to require the Operating Partnership to repurchase the Notes for cash, in whole or in part, on each of April 1, 2012, April 1, 2017 and April 1, 2022, and upon the occurrence of a designated event, in each case for a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest. Certain events are considered Events of Default, as defined in the indenture governing the Notes, which may result in the accelerated maturity of the Notes.

GAAP requires entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s economic interest cost. The Company therefore accounts for the liability and equity components of the Notes separately. The equity component is included in the paid-in-capital section of stockholders equity on the condensed consolidated balance sheet, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component. The discount is being amortized over the period of the debt as additional interest expense.

Information about the carrying amounts of the equity component, the principal amount of the liability component, its unamortized discount, and its net carrying amount are as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Carrying amount of equity component | $ 19,545 | $ 19,545 |
| | | |
| Principal amount of liability component | $ 87,663 | $ 87,663 |
| Unamortized discount | (3,049) | (3,869) |
| Net carrying amount of liability component | $ 84,614 | $ 83,794 |

The discount will be amortized over the remaining period of the debt through its first redemption date of April 1, 2012. The effective interest rate on the liability component is 5.75%. The amount of interest cost recognized relating to the contractual interest rate and the amortization of the discount on the liability component is as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Contractual interest | $ 792 | $ 1,135 | $ 1,576 | $ 2,853 |
| Amortization of discount | 416 | 563 | 820 | 1,404 |
| Total interest expense recognized | $ 1,208 | $ 1,698 | $ 2,396 | $ 4,257 |

*Repurchases of Notes*

The Company has repurchased a portion of its Notes. The Company allocated the value of the consideration paid to repurchase the Notes (1) to the extinguishment of the liability component and (2) the reacquisition of the equity component. The amount allocated to the extinguishment of the liability component is equal to the fair value of that component immediately prior to extinguishment. The difference between the consideration attributed to the extinguishment of the liability component and the sum of (a) the net carrying amount of the repurchased liability component, and (b) the related unamortized debt issuance costs is recognized as a gain on debt extinguishment. The remaining settlement consideration is allocated to the reacquisition of the equity component of the repurchased Notes, and recognized as a reduction of stockholders equity.

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Information on the repurchases and the related gains is as follows:

| | May 2009 | March 2009 |
|---|---|---|
| Principal amount repurchased | $ 43,000 | $ 71,500 |
| Amount allocated to: | | |
| Extinguishment of liability component | $ 35,000 | $ 43,800 |
| Reacquisition of equity component | 1,340 | 713 |
| Total cash paid for repurchase | $ 36,340 | $ 44,513 |
| | | |
| Exchangeable senior notes repurchased | $ 43,000 | $ 71,500 |
| Extinguishment of liability component | (35,000) | (43,800) |
| Discount on exchangeable senior notes | (2,349) | (4,208) |
| Related debt issuance costs | (558) | (1,009) |
| Gain on repurchase | $ 5,093 | $ 22,483 |

**12. LINES OF CREDIT**

On June 4, 2010, the Company entered into a $45,000 revolving secured line of credit (the Third Credit Line ) that is collateralized by mortgages on certain lease-up real estate assets and matures on May 31, 2013 with a two-year extension option available. The Company intends to use the proceeds of the Third Credit Line to repay debt and for general corporate purposes. The Third Credit Line has an interest rate of LIBOR plus 350 basis points (3.85% at June 30, 2010). The Third Credit Line is guaranteed by the Company. As of June 30, 2010, the Credit Line had $19,200 of capacity based on the lease-up of the assets collateralizing the Third Credit Line. At June 30, 2010, $0 was drawn on the Third Credit Line.

On February 13, 2009, the Company entered into a $50,000 revolving secured line of credit (the Secondary Credit Line ) that is collateralized by mortgages on certain real estate assets and matures on February 13, 2012. The Company intends to use the proceeds of the Secondary Credit Line to repay debt and for general corporate purposes. The Secondary Credit Line has an interest rate of LIBOR plus 325 basis points (3.60% at June 30, 2010 and 3.48% at December 31, 2009). As of June 30, 2010 and December 31, 2009, there was $40,000 and $0, respectively, drawn on the Secondary Credit Line. The Secondary Credit Line is guaranteed by the Company.

On October 19, 2007, the Operating Partnership entered into a $100,000 revolving line of credit (the Credit Line and together with the Secondary Credit Line and the Third Credit Line, the Credit Lines ) that matures on October 31, 2010 with two one-year extensions available. As of June 30, 2010 and December 31, 2009, $100,000 was drawn on the Credit Line. The Company intends to use the proceeds of the Credit Line to repay debt and for general corporate purposes. The Credit Line has an interest rate of between 100 and 205 basis points over LIBOR, depending on certain financial ratios of the Company (1.35% at June 30, 2010 and 1.23% at December 31, 2009). The Credit Line is collateralized by mortgages on certain real estate assets. As of June 30, 2010, the Credit Line had $100,000 of capacity based on the assets collateralizing the Credit Line.

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**13. OTHER LIABILTIES**

The components of other liabilities are summarized as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Deferred rental income | $ 11,606 | $ 12,045 |
| Lease obligation liability | 5,368 | 6,260 |
| Fair value of interest rate swaps | 4,937 | 1,111 |
| Income taxes payable | 1,353 | 2,145 |
| Other miscellaneous liabilities | 1,519 | 3,413 |
| | $ 24,783 | $ 24,974 |

**14. RELATED PARTY AND AFFILIATED REAL ESTATE JOINT VENTURE TRANSACTIONS**

The Company provides management and development services to certain joint ventures, franchises, third parties and other related party properties. Management agreements provide generally for management fees of 6% of gross rental revenues for the management of operations at the self-storage facilities.

Management fee revenues for related parties and affiliated real estate joint ventures are summarized as follows:

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| Entity | Type | 2010 | 2009 | 2010 | 2009 |
| ESW | Affiliated real estate joint ventures | $ 101 | $ 99 | $ 101 | $ 202 |
| ESW II | Affiliated real estate joint ventures | 78 | 77 | 78 | 154 |
| ESNPS | Affiliated real estate joint ventures | 114 | 111 | 114 | 228 |
| ESSM | Affiliated real estate joint ventures | 7 | | 7 | |
| HSRE | Affiliated real estate joint ventures | 195 | | 195 | |
| PRISA | Affiliated real estate joint ventures | 1,188 | 1,179 | 1,188 | 2,431 |
| PRISA II | Affiliated real estate joint ventures | 989 | 977 | 989 | 2,002 |
| PRISA III | Affiliated real estate joint ventures | 423 | 416 | 423 | 841 |
| VRS | Affiliated real estate joint ventures | 283 | 280 | 283 | 567 |
| WCOT | Affiliated real estate joint ventures | 363 | 359 | 363 | 732 |
| SP I | Affiliated real estate joint ventures | 311 | 306 | 311 | 627 |
| SPB II | Affiliated real estate joint ventures | 233 | 233 | 233 | 476 |
| Everest | Affiliated real estate joint ventures | 118 | 111 | 118 | 225 |
| Other | Franchisees, third parties and other | 1,250 | 1,127 | 6,802 | 2,009 |
| | | $ 5,653 | $ 5,275 | $ 11,205 | $ 10,494 |

Receivables from related parties and affiliated real estate joint ventures are summarized as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Mortgage notes receivable | $ 11,040 | $ |
| Other receivables from properties | 9,549 | 5,114 |
| | $ 20,589 | $ 5,114 |

Other receivables from properties consist of amounts due for management fees, development fees and expenses paid by the Company on behalf of the properties that the Company manages. The Company believes that all of these related party and affiliated joint venture receivables are fully collectible. The Company did not have any payables to related parties at June 30, 2010 or December 31, 2009.

In January 2009, the Company purchased a lender s interest in a construction loan from a joint venture that owns a single property located in Sacramento, CA. The construction loan was to ESS of Sacramento One, LLC, a joint venture in which the Company owns a 50% interest, and was guaranteed by the Company. In July 2009, the Company purchased a lender s interest in a mortgage note from a joint venture that owns a single property located in Chicago, IL. The note was to Extra Space of Montrose, a joint venture in which the Company holds a 39% interest, and was also guaranteed by the Company. Both ESS of Sacramento One, LLC and Extra Space of Montrose were consolidated as of December 31, 2009 as each joint venture was considered to be a VIE of which the Company was the primary beneficiary. The construction loan and mortgage note receivable were eliminated by the Company in consolidation as of December 31, 2009. On January 1, 2010, the Company adopted changes to the accounting guidance in ASC 810, *Consolidation.* As a result of the adoption of this new guidance, the Company determined that these joint ventures should no longer

be consolidated as the power to direct the activities that most significantly impact these entities economic performance are shared equally by the Company and their joint venture partners, and therefore there is no primary beneficiary of either joint venture. The Company therefore deconsolidated these joint ventures as of January 1, 2010 and removed the associated assets and liabilities from its books. The $7,295 note receivable from Extra Space of Montrose and the $3,745 construction loan receivable from ESS of Sacramento One, LLC are no longer eliminated in consolidation as the Company now accounts for its interest in these joint ventures on the equity method of accounting.

Centershift, a related party service provider, is partially owned by certain directors and members of management of the Company. Effective January 1, 2004, the Company entered into a license agreement with Centershift to secure a perpetual right for continued use of STORE (the site management software used at all sites operated by the Company) in all aspects of the Company s property acquisition, development, redevelopment and operational activities. The Company paid Centershift $178 and $293 for the three months ended June 30, 2010 and 2009, respectively, and $367 and $584 for the six months ended June 30, 2010 and 2009, respectively, relating to the purchase of software and to license agreements.

The Company has entered into an aircraft dry lease and service and management agreement with SpenAero, L.C. ( SpenAero ), an affiliate of Spencer F. Kirk, the Company s Chairman and Chief Executive Officer. Under the terms of the agreement, the Company pays a defined hourly rate for use of the aircraft. The Company paid SpenAero and related entities $212 and $130 for the three months ended June 30, 2010 and 2009, respectively, and $392 and $310 for the six months ended June 30, 2010 and 2009, respectively. The services that the Company receives from SpenAero are similar in nature and price to those that are provided to other outside third parties.

**15. STOCKHOLDERS EQUITY**

The Company s charter provides that it can issue up to 300,000,000 shares of common stock, $0.01 par value per share and 50,000,000 shares of preferred stock, $0.01 par value per share. As of June 30, 2010, 87,481,903 shares of common stock were issued and outstanding and no shares of preferred stock were issued and outstanding.

All holders of the Company s common stock are entitled to receive dividends and to one vote on all matters submitted to a vote of stockholders. The transfer agent and registrar for the Company s common stock is American Stock Transfer & Trust Company.

**16. NONCONTROLLING INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS**

On June 15, 2007, the Operating Partnership entered into a Contribution Agreement with various limited partnerships affiliated with AAAAA Rent-A-Space to acquire ten self-storage facilities (the Properties ) in exchange for the issuance of newly designated Preferred OP units of the Operating Partnership. The self-storage facilities are located in California and Hawaii.

On June 25 and 26, 2007, nine of the ten properties were contributed to the Operating Partnership in exchange for consideration totaling $137,800. Preferred OP units totaling 909,075, with a value of $121,700, were issued along with the assumption of approximately $14,200 of

third-party debt, of which $11,400 was paid off at close. The final property was contributed on August 1, 2007 in exchange for consideration totaling $14,700. 80,905 Preferred OP units with a value of $9,800 were issued along with $4,900 of cash.

On June 25, 2007, the Operating Partnership loaned the holders of the Preferred OP units $100,000. The note receivable bears interest at 4.85%, and is due September 1, 2017. The loan is secured by the borrower s Preferred OP units. The holders of the Preferred OP units can convert up to 114,500 Preferred OP units prior to the maturity date of the loan. If any redemption in excess of 114,500 Preferred OP units occurs prior to the maturity date, the holder of the Preferred OP units is required to repay the loan as of the date of that Preferred OP unit redemption. Preferred OP units are shown on the balance sheet net of the $100,000 loan because the borrower under the loan receivable is also the holder of the Preferred OP units.

The Operating Partnership entered into a Second Amended and Restated Agreement of Limited Partnership (the Partnership Agreement ) which provides for the designation and issuance of the Preferred OP units. The Preferred OP units will have priority over all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

Under the Partnership Agreement, Preferred OP units in the amount of $115,000 bear a fixed priority return of 5% and have a fixed liquidation value of $115,000. The remaining balance participates in distributions with and has a liquidation value equal to that of the common OP units. The Preferred OP units became redeemable at the option of the holder on September 1, 2008, which redemption obligation may be satisfied, at the Company s option, in cash or shares of its common stock.

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On September 18, 2008, the Operating Partnership entered into a First Amendment to the Second Amended and Restated Agreement of Limited Partnership of Extra Space Storage LP to clarify certain tax-related provisions relating to the Preferred OP units.

GAAP requires a company to present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company s equity. It also requires the amount of consolidated net income (loss) attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. If noncontrolling interests are determined to be redeemable, they are to be carried at their redemption value as of the balance sheet date and reported as temporary equity.

The Company has evaluated the terms of the Preferred OP units and classifies the noncontrolling interest represented by the Preferred OP units as stockholders equity in the accompanying condensed consolidated balance sheets. The Company will periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling amount as permanent equity in the condensed consolidated balance sheets. Any noncontrolling interests that fail to quality as permanent equity will be reclassified as temporary equity and adjusted to the greater of (a) the carrying amount, or (b) its redemption value as of the end of the period in which the determination is made.

**17. NONCONTROLLING INTEREST IN OPERATING PARTNERSHIP**

The Company s interest in its properties is held through the Operating Partnership. ESS Holding Business Trust I, a wholly owned subsidiary of the Company, is the sole general partner of the Operating Partnership. The Company, through ESS Holding Business Trust II, a wholly owned subsidiary of the Company, is also a limited partner of the Operating Partnership. Between its general partner and limited partner interests, the Company held a 94.99% majority ownership interest therein as of June 30, 2010. The remaining ownership interests in the Operating Partnership (including Preferred OP units) of 5.01% are held by certain former owners of assets acquired by the Operating Partnership. As of June 30, 2010, the Operating Partnership had 3,627,368 common OP units outstanding.

The noncontrolling interest in the Operating Partnership represents common OP units that are not owned by the Company. In conjunction with the formation of the Company and as a result of subsequent acquisitions, certain persons and entities contributing interests in properties to the Operating Partnership received limited partnership units in the form of either OP units or Contingent Conversion Units. Limited partners who received OP units in the formation transactions or in exchange for contributions for interests in properties have the right to require the Operating Partnership to redeem part or all of their common OP units for cash based upon the fair market value of an equivalent number of shares of the Company s common stock (10 day average) at the time of the redemption. Alternatively, the Company may, at its option, elect to acquire those OP units in exchange for shares of its common stock on a one-for-one basis, subject to anti-dilution adjustments provided in the Partnership Agreement. The ten day average closing stock price at June 30, 2010 was $14.48 and there were 3,627,368 common OP units outstanding. Assuming that all of the unit holders exercised their right to redeem all of their common OP units on June 30, 2010 and the Company elected to pay the noncontrolling members cash, the Company would have paid $52,524 in cash consideration to redeem the OP units.

GAAP requires a company to present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company s equity. It also requires the amount of consolidated net income (loss) attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. If noncontrolling interests are determined to be redeemable, they are to be carried at their redemption value as of the balance sheet date and reported as temporary equity.

The Company has evaluated the terms of the common OP units and classifies the noncontrolling interest in the Operating Partnership as stockholders equity in the accompanying condensed consolidated balance sheets. The Company will periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling amount as permanent equity in the condensed consolidated balance sheets. Any noncontrolling interests that fail to quality as permanent equity will be reclassified as temporary equity and adjusted to the greater of (a) the carrying amount, or (b) its redemption value as of the end of the period in which the determination is made.

**18. OTHER NONCONTROLLING INTERESTS**

Other noncontrolling interests represent the ownership interests of various third parties in three consolidated self-storage properties as of June 30, 2010. Two of these consolidated properties were under development, and one was in the lease-up stage at June 30, 2010. The ownership interests of the third party owners range from 10% to 35%. Other noncontrolling interests are included in the stockholders equity section of the Company s condensed consolidated balance sheet. The income or losses attributable to these third party owners based on their ownership percentages are reflected in net income (loss) allocated to the Operating Partnership and other noncontrolling interests in the condensed consolidated statement of operations.

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On June 25, 2010, the Company acquired all of its minority partners membership interests in two consolidated self-storage properties located in New Jersey for a total of $50 in cash. Both of these properties are in the lease-up stage and are now wholly owned by the Company.

**19. STOCK-BASED COMPENSATION**

The Company has the following plans under which shares were available for grant at June 30, 2010:

- The 2004 Long-Term Incentive Compensation Plan as amended and restated effective March 25, 2008, and
- The 2004 Non-Employee Directors Share Plan (together, the Plans ).

Option grants are issued with an exercise price equal to the closing price of the Company s common stock on the date of grant. Unless otherwise determined by the Compensation, Nominating and Governance Committee at the time of grant, options vest ratably over a four-year period beginning on the date of grant. Each option will be exercisable once it has vested. Options are exercisable at such times and subject to such terms as determined by the Compensation, Nominating and Governance Committee, but under no circumstances will be exercised if such exercise would cause a violation of the ownership limit in the Company s charter. Options expire 10 years from the date of grant.

Also, as defined under the terms of the Plans, restricted stock grants may be awarded. The stock grants are subject to a performance or vesting period over which the restrictions are lifted and the stock certificates are given to the grantee. During the performance or vesting period, the grantee is not permitted to sell, transfer, pledge, encumber or assign shares of restricted stock granted under the Plans, however the grantee has the ability to vote the shares and receive non-forfeitable dividends paid on the shares. The forfeiture and transfer restrictions on the shares lapse over a four-year period beginning on the date of grant.

As of June 30, 2010, 2,888,454 shares were available for issuance under the Plans.

A summary of stock option activity is as follows:

| Options | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value as of June 30, 2010 |
|---|---|---|---|---|
| Outstanding at December 31, 2009 | 3,457,048 | $ 13.02 | | |
| Granted | 308,680 | 11.75 | | |
| Exercised | (344,460) | 10.75 | | |
| Forfeited | (109,225) | 9.89 | | |
| Outstanding at June 30, 2010 | 3,312,043 | $ 13.24 | 6.22 | $ 5,767 |

| | | | | | |
|---|---|---|---|---|---|
| Vested and Expected to Vest | 3,121,110 | $ 13.45 | 6.03 | $ | 4,969 |
| Ending Exercisable | 2,253,963 | $ 14.52 | 5.11 | $ | 1,543 |

The aggregate intrinsic value in the table above represents the total value (the difference between the Company s closing stock price on the last trading day of the second quarter of 2010 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2010. The amount of aggregate intrinsic value will change based on the fair market value of the Company s stock.

The weighted average fair value of stock options granted for the six months ended June 30, 2010 and 2009, was $3.27 and $1.31, respectively. The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | **Six months ended June 30,** | |
|---|---|---|
| | **2010** | **2009** |
| Expected volatility | 47% | 48% |
| Dividend yield | 5.3% | 6.9% |
| Risk-free interest rate | 2.3% | 2.5% |
| Average expected term (years) | 5 | 5 |

The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The Company uses actual historical data to calculate the

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expected price volatility, dividend yield and average expected term.  The forfeiture rate, which is estimated at a weighted-average of 15.74% of unvested options outstanding as of June 30, 2010, is adjusted based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimates.

The Company recorded compensation expense relating to outstanding options of $195 and $216 for the three months ended June 30, 2010 and 2009, respectively, and $391 and $477 for the six months ended June 30, 2010 and 2009, respectively.  The Company received net proceeds from the exercise of options of $3,217 and $0 for the three months ended June 30, 2010 and 2009, respectively, and $3,705 and $0 for the six months ended June 30, 2010 and 2009, respectively.  At June 30, 2010, there was $1,436 of total unrecognized compensation expense related to non-vested stock options under the Company s 2004 Long-Term Incentive Compensation Plan. That cost is expected to be recognized over a weighted-average period of 2.57 years. The valuation model applied in this calculation utilizes subjective assumptions that could potentially change over time, including the expected forfeiture rate. Therefore, the amount of unrecognized compensation expense at June 30, 2010, noted above does not necessarily represent the expense that will ultimately be realized by the Company in the statement of operations.

**Common Stock Granted to Employees and Directors**

The Company granted 137,470 and 223,828 shares of common stock to certain employees and directors, without monetary consideration under the Plans during the three months ended June 30, 2010 and 2009, respectively, and 440,230 and 538,865 shares during the six months ended June 30, 2010 and 2009, respectively.  The Company recorded compensation expense related to outstanding shares of common stock granted to employees and directors of $1,288 and $1,045 for the three months ended June 30, 2010 and 2009, respectively, and $2,011 and $1,683 for the six months ended June 30, 2010 and 2009, respectively.

The fair value of common stock awards is determined based on the closing trading price of the Company s common stock on the grant date.

A summary of the Company s employee share grant activity is as follows:

| Restricted Stock Grants | Shares | | Weighted-Average Grant-Date Fair Value |
|---|---|---|---|
| Unreleased at December 31, 2009 | 768,929 | $ | 9.95 |
| Granted | 440,230 | | 12.19 |
| Released | (217,814) | | 10.89 |
| Cancelled | (57,952) | | 10.04 |
| Unreleased at June 30, 2010 | 933,393 | $ | 10.78 |

**20. INCOME TAXES**

As a REIT, the Company is generally not subject to federal income tax with respect to that portion of its income which is distributed annually to its stockholders. However, the Company has elected to treat one of its corporate subsidiaries, Extra Space Management, Inc., as a taxable REIT subsidiary ( TRS ).  In general, the Company s TRS may perform additional services for tenants and generally may engage in any real estate or

non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company accounts for income taxes in accordance with the provisions of ASC 740, *Income Taxes.* Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities.

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The income tax provision is comprised of the following components:

| | Six months ended June 30, 2010 | | |
|---|---|---|---|
| | Federal | State | Total |
| Current | $ 1,566 | $ 207 | $ 1,773 |
| Change in deferred benefit | 486 | | 486 |
| Total tax expense | $ 2,052 | $ 207 | $ 2,259 |

| | Six months ended June 30, 2009 | | |
|---|---|---|---|
| | Federal | State | Total |
| Current | $ 1,998 | $ 194 | $ 2,192 |
| Change in deferred benefit | (547) | (54) | (601) |
| Total tax expense | $ 1,451 | $ 140 | $ 1,591 |

The major sources of temporary differences stated at their deferred tax effects are as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Captive insurance subsidiary | $ 167 | $ 182 |
| Fixed assets | 2,964 | 3,122 |
| Various liabilities | 1,346 | 1,603 |
| Stock compensation | 1,347 | 1,865 |
| State net operating losses | 1,089 | 939 |
| | 6,913 | 7,711 |
| Valuation allowance | (2,120) | (2,135) |
| Net deferred tax asset | $ 4,793 | $ 5,576 |

The state net operating losses expire between 2012 and 2027 and have been fully reserved through the valuation allowances.

**21. SEGMENT INFORMATION**

The Company operates in three distinct segments: (1) property management, acquisition and development; (2) rental operations; and (3) tenant reinsurance. Financial information for the Company s business segments is set forth below:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| **Balance Sheet** | | |
| Investment in real estate ventures | | |
| Rental operations | $ 152,976 | $ 130,449 |
| | | |
| Total assets | | |
| Property management, acquisition and development | $ 394,754 | $ 466,399 |

| | | | | |
|---|---|---|---|---|
| Rental operations | | 1,770,522 | | 1,922,643 |
| Tenant reinsurance | | 13,839 | | 18,514 |
| | $ | 2,179,115 | $ | 2,407,556 |

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| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Statement of Operations** | | | | |
| Total revenues | | | | |
| Property management, acquisition and development | $ 5,653 | $ 5,275 | $ 11,205 | $ 10,494 |
| Rental operations | 56,786 | 58,705 | 112,929 | 118,114 |
| Tenant reinsurance | 6,338 | 5,085 | 12,230 | 9,704 |
| | $ 68,777 | $ 69,065 | $ 136,364 | $ 138,312 |
| | | | | |
| Operating expenses, including depreciation and amortization | | | | |
| Property management, acquisition and development | $ 11,855 | $ 31,212 | $ 23,422 | $ 42,290 |
| Rental operations | 32,659 | 34,008 | 66,593 | 68,993 |
| Tenant reinsurance | 1,457 | 1,471 | 2,680 | 2,732 |
| | $ 45,971 | $ 66,691 | $ 92,695 | $ 114,015 |
| | | | | |
| Income (loss) from operations | | | | |
| Property management, acquisition and development | $ (6,202) | $ (25,937) | $ (12,217) | $ (31,796) |
| Rental operations | 24,127 | 24,697 | 46,336 | 49,121 |
| Tenant reinsurance | 4,881 | 3,614 | 9,550 | 6,972 |
| | $ 22,806 | $ 2,374 | $ 43,669 | $ 24,297 |
| | | | | |
| Interest expense | | | | |
| Property management, acquisition and development | $ (790) | $ 445 | $ (1,577) | $ (1,984) |
| Rental operations | (15,859) | (16,824) | (32,750) | (31,031) |
| | $ (16,649) | $ (16,379) | $ (34,327) | $ (33,015) |
| | | | | |
| Interest income | | | | |
| Property management, acquisition and development | $ 209 | $ 307 | $ 531 | $ 820 |
| Tenant reinsurance | 2 | 14 | 5 | 33 |
| | $ 211 | $ 321 | $ 536 | $ 853 |
| | | | | |
| Interest income on note receivable from Preferred Operating Partnership unit holder | | | | |
| Property management, acquisition and development | $ 1,212 | $ 1,212 | $ 2,425 | $ 2,425 |
| | | | | |
| Gain on repurchase of exchangeable senior notes | | | | |
| Property management, acquisition and development | $ | $ 5,093 | $ | $ 27,576 |
| | | | | |
| Equity in earnings of real estate ventures | | | | |
| Rental operations | $ 1,559 | $ 1,641 | $ 3,060 | $ 3,536 |
| | | | | |
| Income tax expense | | | | |
| Tenant reinsurance | $ (1,214) | $ (943) | $ (2,259) | $ (1,591) |
| | | | | |
| Net income (loss) | | | | |
| Property management, acquisition and development | $ (5,571) | $ (18,880) | $ (10,838) | $ (2,959) |
| Rental operations | 9,827 | 9,514 | 16,646 | 21,626 |
| Tenant reinsurance | 3,669 | 2,685 | 7,296 | 5,414 |
| | $ 7,925 | $ (6,681) | $ 13,104 | $ 24,081 |
| | | | | |
| **Depreciation and amortization expense** | | | | |
| Property management, acquisition and development | $ 484 | $ 399 | $ 925 | $ 804 |
| Rental operations | 11,718 | 12,441 | 23,696 | 24,559 |
| | $ 12,202 | $ 12,840 | $ 24,621 | $ 25,363 |

| **Statement of Cash Flows** | | | | |
|---|---|---|---|---|
| Acquisition of real estate assets | | | | |
| Property management, acquisition and development | $ | (16,460) | $ | (24,001) |
| | | | | |
| Development and construction of real estate assets | | | | |
| Property management, acquisition and development | $ | (18,306) | $ | (43,293) |

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**22. COMMITMENTS AND CONTINGENCIES**

The Company has guaranteed loans for unconsolidated joint ventures as follows:

| | Date of Guaranty | Loan Maturity Date | | Guaranteed Loan Amount June 30, 2010 | | Estimated Fair Market Value of Assets |
|---|---|---|---|---|---|---|
| Extra Space of Elk Grove | Nov-08 | Nov-10 | $ | 4,773 | $ | 7,317 |
| ESS Baltimore LLC | Nov-04 | Feb-13 | $ | 4,147 | $ | 6,997 |
| Extra Space of Sacramento One LLC | Apr-09 | Apr-11 | $ | 5,000 | $ | 10,027 |
| Extra Space of Washington Avenue LLC | Mar-09 | Mar-12 | $ | 6,051 | $ | 9,914 |
| Extra Space of Franklin Boulevard LLC | Aug-08 | Aug-10 | $ | 5,234 | $ | 6,905 |

If the joint ventures default on the loans, the Company may be forced to repay the loans. Repossessing and/or selling the self-storage facilities and land that collateralizes the loans could provide funds sufficient to reimburse the Company. The Company has recorded no liability in relation to these guarantees as of June 30, 2010, as the fair value of the guarantees was not material. The Company believes the risk of incurring a loss as a result of having to perform on these guarantees is unlikely.

The Company has been involved in routine litigation arising in the ordinary course of business. As of June 30, 2010, the Company was not involved in any material litigation nor, to its knowledge, was any material litigation threatened against it which, in the opinion of management, is expected to have a material adverse effect on the Company s financial condition or results of operations.

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**Extra Space Storage Inc.**

**Management s Discussion and Analysis**

**Amounts in thousands, except property and share data**

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**CAUTIONARY LANGUAGE**

The following discussion and analysis should be read in conjunction with our *Unaudited Condensed Consolidated Financial Statements* and the *Notes to Unaudited Condensed Consolidated Financial Statements* appearing elsewhere in this report and the *Consolidated Financial Statements,* *Notes to Consolidated Financial Statements* and *Management s Discussion and Analysis of Financial Condition and Results of Operations* contained in our Form 10-K for the year ended December 31, 2009. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-Q entitled *Statement on Forward-Looking Information*. (Amounts in thousands except property and share data unless otherwise stated).

**CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based on our unaudited condensed consolidated financial statements contained elsewhere in this report, which have been prepared in accordance with GAAP. Our notes to the unaudited condensed consolidated financial statements contained elsewhere in this report and the audited financial statements contained in our Form 10-K for the year ended December 31, 2009, describe the significant accounting policies essential to our unaudited condensed consolidated financial statements. Preparation of our financial statements requires estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions which we have used are appropriate and correct based on information available at the time that they were made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported revenues and expenses during the period presented. If there are material differences between these estimates, judgments and assumptions and actual facts, our financial statements may be affected.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require our judgment in its application. There are areas in which our judgment in selecting among available alternatives would not produce a materially different result, but there are some areas in which our judgment in selecting among available alternatives would produce a materially different result. See the notes to the unaudited condensed consolidated financial statements that contain additional information regarding our accounting policies and other disclosures.

**OVERVIEW**

We are a fully integrated, self-administered and self-managed REIT, formed to continue the business commenced in 1977 by our predecessor companies to own, operate, manage, acquire, develop and redevelop professionally managed self-storage properties. We derive our revenues from rents received from tenants under existing leases at each of our self-storage properties, from management fees on the properties we manage for joint venture partners, franchisees and unaffiliated third parties and from our tenant reinsurance program. Our management fee is equal to approximately 6% of total revenues generated by the managed properties.

We operate in competitive markets, often where consumers have multiple self-storage properties from which to choose. Competition has impacted, and will continue to impact our property results. We experience seasonal fluctuations in occupancy levels, with occupancy levels generally higher in the summer months due to increased moving activity. Our operating results depend materially on our ability to lease available self-storage units, to actively manage rental rates, and on the ability of our tenants to make required rental payments. We believe we are able to respond quickly and effectively to changes in local, regional and national economic conditions by centrally adjusting rental rates through the combination of our revenue management team and our industry-leading technology systems.

We continue to evaluate a range of new initiatives and opportunities in order to enable us to maximize stockholder value. Our strategies to maximize stockholder value include the following:

• *Maximize the performance of properties through strategic, efficient and proactive management.* We pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team seeks to maximize revenue by responding to changing market conditions through our technology system s ability to provide real-time,

interactive rental rate and discount management. Our size allows greater ability than the majority of our competitors to implement national, regional and local marketing programs, which we believe will attract more customers to our stores at a lower net cost.

- *Expand our management business*. Our management business enables us to generate increased revenues through management fees and expand our geographic footprint. This expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We pursue strategic relationships with owners that strengthen our acquisition pipeline through agreements which often gives us first right of refusal to purchase the managed property in the event of a potential sale.

- *Acquire self-storage properties from strategic partners and third parties.* Our acquisitions team continues to selectively pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. We have established a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, we believe our status as an UPREIT enables flexibility when structuring deals.

U.S. and international market and economic conditions have been challenging, with tighter credit conditions and slower growth.  For the six months ended June 30, 2010, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit and other macro-economic factors have contributed to increased market volatility and diminished expectations for the global economy and increased market uncertainty and instability.  Continued turbulence in U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the financial condition of our customers.  If these market conditions continue, they may result in an adverse effect on our financial condition and results of operations.

**PROPERTIES**

As of June 30, 2010, we owned or had ownership interests in 649 operating self-storage properties. Of these properties, 280 are wholly-owned and 369 are held in joint ventures. In addition, we managed an additional 140 properties for franchisees or third parties bringing the total number of operating properties which we own and/or manage to 789.  These properties are located in 33 states and Washington, D.C.  As of June 30, 2010, we owned and/or managed approximately 55 million square feet of space with more than 400,000 customers.

Our properties are generally situated in convenient, highly visible locations clustered around large population centers such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These areas all enjoy above-average population growth and income levels. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale.

We consider a property to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. We consider a property to be stabilized once it has achieved either an 80% occupancy rate for a full year measured as of January 1, or has been open for three years. Although leases are short-term in duration, the typical tenant tends to remain at our properties for an extended period of time. For properties that were stabilized as of June 30, 2010, the median length of stay was approximately eleven months.  The average annual rent per square foot at these stabilized properties was $13.25 at June 30, 2010 compared to $13.39 at June 30, 2009.

Our property portfolio is made up of different types of construction and building configurations depending on the site and the municipality where it is located. Most often sites are what we consider hybrid facilities, a mix of both drive-up buildings and multi-floor buildings. We have a number of multi-floor buildings with elevator access only, and a number of facilities featuring ground-floor access only.

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The following table sets forth additional information regarding the occupancy of our stabilized properties on a state-by-state basis as of June 30, 2010 and 2009. The information as of June 30, 2009 is on a pro forma basis as though all the properties owned and/or managed at June 30, 2010 were under our control as of June 30, 2009.

**Stabilized Property Data Based on Location**

| Location | Number of Properties | Company Number of Units as of June 30, 2010(1) | Pro forma Number of Units as of June 30, 2009 | Company Net Rentable Square Feet as of June 30, 2010(2) | Pro forma Net Rentable Square Feet as of June 30, 2009 | Company Square Foot Occupancy % June 30, 2010 | Pro forma Square Foot Occupancy % June 30, 2009 |
|---|---|---|---|---|---|---|---|
| **Wholly-owned properties** | | | | | | | |
| Alabama | 1 | 587 | 587 | 78,240 | 76,960 | 79.7% | 81.0% |
| Arizona | 5 | 2,805 | 2,836 | 347,198 | 347,138 | 86.7% | 84.0% |
| California | 43 | 34,239 | 34,254 | 3,377,221 | 3,354,506 | 83.8% | 82.3% |
| Colorado | 8 | 3,774 | 3,796 | 476,434 | 476,409 | 90.1% | 85.3% |
| Connecticut | 3 | 2,011 | 2,028 | 178,040 | 178,115 | 91.8% | 88.8% |
| Florida | 28 | 18,269 | 18,348 | 1,945,619 | 1,946,176 | 84.3% | 81.6% |
| Georgia | 13 | 7,056 | 7,068 | 914,063 | 913,654 | 83.4% | 80.3% |
| Hawaii | 2 | 2,846 | 2,859 | 145,694 | 145,657 | 80.9% | 77.3% |
| Illinois | 5 | 3,334 | 3,323 | 342,234 | 342,092 | 86.2% | 81.9% |
| Indiana | 6 | 3,478 | 3,510 | 412,709 | 412,796 | 87.8% | 86.6% |
| Kansas | 1 | 507 | 508 | 50,310 | 50,190 | 88.8% | 86.0% |
| Kentucky | 3 | 1,573 | 1,587 | 193,901 | 194,101 | 92.0% | 90.5% |
| Louisiana | 2 | 1,412 | 1,412 | 150,035 | 149,875 | 87.7% | 87.3% |
| Maryland | 10 | 7,929 | 7,934 | 847,529 | 847,522 | 90.2% | 86.7% |
| Massachusetts | 28 | 16,733 | 16,786 | 1,722,676 | 1,713,477 | 85.6% | 83.1% |
| Michigan | 2 | 1,017 | 1,029 | 134,706 | 134,866 | 90.3% | 86.1% |
| Missouri | 6 | 3,141 | 3,157 | 374,572 | 374,437 | 88.0% | 83.3% |
| Nevada | 1 | 463 | 463 | 56,850 | 56,850 | 78.7% | 84.8% |
| New Hampshire | 2 | 1,007 | 1,006 | 125,473 | 125,691 | 84.6% | 84.4% |
| New Jersey | 23 | 18,751 | 18,847 | 1,833,651 | 1,835,821 | 87.9% | 84.5% |
| New Mexico | 1 | 538 | 539 | 71,395 | 69,745 | 92.4% | 81.8% |
| New York | 10 | 8,431 | 8,730 | 614,200 | 611,426 | 82.7% | 81.5% |
| Ohio | 2 | 1,182 | 1,185 | 156,839 | 156,549 | 91.3% | 92.3% |
| Oregon | 1 | 769 | 766 | 103,230 | 103,190 | 91.1% | 88.9% |
| Pennsylvania | 8 | 4,883 | 4,885 | 582,600 | 580,207 | 89.4% | 85.4% |
| Rhode Island | 1 | 719 | 730 | 75,841 | 75,521 | 86.9% | 88.2% |
| South Carolina | 4 | 2,173 | 2,175 | 253,406 | 253,406 | 87.7% | 84.5% |
| Tennessee | 2 | 992 | 990 | 148,155 | 148,475 | 84.5% | 85.0% |
| Texas | 16 | 10,199 | 10,249 | 1,142,856 | 1,143,325 | 87.8% | 86.2% |
| Utah | 3 | 1,546 | 1,539 | 211,263 | 210,636 | 84.2% | 88.3% |
| Virginia | 4 | 2,838 | 2,837 | 271,407 | 271,457 | 90.0% | 86.5% |
| Washington | 4 | 2,543 | 2,554 | 308,015 | 308,015 | 83.3% | 88.8% |
| **Total Wholly-Owned Stabilized** | **248** | **167,745** | **168,517** | **17,646,362** | **17,608,285** | **86.1%** | **83.9%** |
| **Joint-venture properties** | | | | | | | |
| Alabama | 3 | 1,705 | 1,707 | 205,638 | 205,958 | 89.1% | 83.9% |
| Arizona | 11 | 6,833 | 6,834 | 751,711 | 751,614 | 83.1% | 83.0% |
| California | 82 | 59,040 | 59,066 | 6,077,195 | 6,083,110 | 85.6% | 85.4% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Colorado | 2 | 1,318 | 1,331 | 158,643 | 158,433 | 86.7% | 85.9% |
| Connecticut | 8 | 5,984 | 5,993 | 691,901 | 693,285 | 84.0% | 79.6% |
| Delaware | 1 | 582 | 587 | 71,735 | 71,655 | 92.2% | 90.2% |
| Florida | 27 | 22,065 | 22,319 | 2,285,665 | 2,295,209 | 81.9% | 79.1% |
| Georgia | 3 | 1,859 | 1,870 | 243,381 | 245,270 | 82.9% | 81.7% |
| Illinois | 9 | 6,446 | 6,438 | 693,715 | 694,104 | 84.9% | 83.7% |
| Indiana | 7 | 2,773 | 2,771 | 366,403 | 366,173 | 87.7% | 82.9% |
| Kansas | 3 | 1,221 | 1,213 | 163,750 | 160,600 | 81.9% | 82.7% |
| Kentucky | 4 | 2,276 | 2,279 | 269,257 | 269,044 | 87.0% | 85.3% |
| Maryland | 14 | 11,000 | 11,073 | 1,085,938 | 1,083,008 | 88.6% | 85.7% |
| Massachusetts | 17 | 9,234 | 9,218 | 1,049,716 | 1,045,895 | 84.5% | 82.3% |
| Michigan | 10 | 5,924 | 5,936 | 784,623 | 784,703 | 86.6% | 84.5% |
| Missouri | 2 | 960 | 956 | 118,045 | 117,695 | 84.8% | 85.5% |
| Nevada | 8 | 5,379 | 5,394 | 693,563 | 694,623 | 84.1% | 83.1% |
| New Hampshire | 3 | 1,321 | 1,318 | 138,234 | 137,754 | 84.8% | 86.2% |
| New Jersey | 21 | 15,648 | 15,671 | 1,645,406 | 1,647,450 | 85.3% | 82.4% |
| New Mexico | 9 | 4,670 | 4,683 | 542,699 | 542,894 | 86.0% | 83.2% |
| New York | 21 | 21,633 | 21,655 | 1,734,779 | 1,735,860 | 88.1% | 86.4% |
| Ohio | 13 | 5,856 | 5,857 | 872,430 | 871,040 | 84.2% | 81.2% |
| Oregon | 2 | 1,292 | 1,292 | 136,610 | 136,660 | 88.8% | 84.7% |
| Pennsylvania | 11 | 8,921 | 8,918 | 874,366 | 872,963 | 88.1% | 86.6% |
| Rhode Island | 2 | 1,075 | 1,092 | 128,075 | 129,875 | 73.5% | 68.9% |
| Tennessee | 25 | 13,807 | 13,836 | 1,820,964 | 1,821,491 | 84.9% | 84.6% |
| Texas | 22 | 13,775 | 13,888 | 1,807,339 | 1,809,035 | 84.7% | 83.6% |
| Utah | 1 | 523 | 520 | 59,250 | 59,000 | 92.8% | 90.3% |
| Virginia | 17 | 12,009 | 11,995 | 1,267,503 | 1,266,843 | 90.2% | 87.8% |
| Washington | 1 | 548 | 545 | 62,730 | 62,730 | 88.1% | 89.2% |
| Washington, DC | 1 | 1,533 | 1,536 | 102,003 | 102,003 | 97.2% | 92.6% |
| **Total Stabilized Joint-Ventures** | **360** | **247,210** | **247,791** | **26,903,267** | **26,915,977** | **85.6%** | **84.0%** |

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| Location | Number of Properties | Company Number of Units as of June 30, 2010(1) | Pro forma Number of Units as of June 30, 2009 | Company Net Rentable Square Feet as of June 30, 2010(2) | Pro forma Net Rentable Square Feet as of June 30, 2009 | Company Square Foot Occupancy % June 30, 2010 | Pro forma Square Foot Occupancy % June 30, 2009 |
|---|---|---|---|---|---|---|---|
| **Managed properties** | | | | | | | |
| Alabama | 2 | 781 | 825 | 95,539 | 95,175 | 93.6% | 92.8% |
| California | 6 | 3,376 | 3,384 | 399,735 | 399,295 | 71.3% | 70.4% |
| Colorado | 5 | 339 | 339 | 31,629 | 31,639 | 96.5% | 92.6% |
| Georgia | 6 | 2,693 | 2,715 | 400,657 | 404,165 | 75.3% | 71.4% |
| Illinois | 4 | 2,318 | 2,320 | 261,249 | 261,666 | 73.7% | 74.3% |
| Indiana | 1 | 502 | 502 | 55,425 | 55,425 | 88.6% | 71.4% |
| Kansas | 3 | 1,506 | 1,519 | 225,750 | 226,370 | 82.6% | 73.0% |
| Kentucky | 1 | 532 | 539 | 66,000 | 65,900 | 88.9% | 77.0% |
| Maryland | 13 | 8,209 | 8,302 | 921,405 | 919,964 | 77.9% | 73.2% |
| Massachusetts | 2 | 2,110 | 2,144 | 190,019 | 190,119 | 76.1% | 69.9% |
| Missouri | 3 | 1,533 | 1,558 | 302,558 | 308,528 | 77.8% | 79.9% |
| Nevada | 2 | 1,576 | 1,576 | 170,775 | 171,555 | 80.9% | 82.7% |
| New Jersey | 5 | 3,327 | 3,349 | 320,404 | 319,484 | 86.3% | 78.0% |
| New Mexico | 2 | 1,104 | 1,107 | 131,782 | 131,797 | 91.1% | 88.3% |
| New York | 1 | 703 | 704 | 83,955 | 77,955 | 84.2% | 81.9% |
| Ohio | 4 | 1,087 | 1,098 | 161,760 | 167,060 | 65.4% | 57.3% |
| Pennsylvania | 20 | 8,372 | 8,386 | 1,019,131 | 1,018,991 | 69.4% | 60.5% |
| South Carolina | 1 | 403 | 400 | 55,337 | 50,297 | 82.6% | 71.6% |
| Tennessee | 2 | 884 | 881 | 131,440 | 130,940 | 88.7% | 89.5% |
| Texas | 4 | 2,150 | 2,242 | 301,318 | 301,519 | 85.9% | 84.2% |
| Utah | 1 | 371 | 371 | 46,805 | 46,855 | 98.6% | 98.2% |
| Virginia | 4 | 2,765 | 2,767 | 274,223 | 270,183 | 86.4% | 84.9% |
| Washington, DC | 2 | 1,263 | 1,255 | 112,459 | 111,759 | 92.7% | 87.2% |
| **Total Stabilized Managed Properties** | **104** | **47,904** | **48,283** | **5,759,355** | **5,756,641** | **78.0%** | **74.1%** |
| **Total Stabilized Properties** | **712** | **462,859** | **464,591** | **50,308,984** | **50,280,903** | **84.8%** | **82.6%** |

*(1) Represents unit count as of June 30, 2010, which may differ from June 30, 2009 unit count due to unit conversions or expansions.*

*(2) Represents net rentable square feet as of June 30, 2010, which may differ from June 30, 2009 net rentable square feet due to unit conversions or expansions.*

The following table sets forth additional information regarding the occupancy of our lease-up properties on a state-by-state basis as of June 30, 2010 and 2009. The information as of June 30, 2009 is on a pro forma basis as though all the properties owned and/or managed at June 30, 2010 were under our control as of June 30, 2009.

**Lease-up Property Data Based on Location**

| Location | Number of Properties | Company Number of Units as of June 30, 2010(1) | Pro forma Number of Units as of June 30, 2009 | Company Net Rentable Square Feet as of June 30, 2010(2) | Pro forma Net Rentable Square Feet as of June 30, 2009 | Company Square Foot Occupancy % June 30, 2010 | Pro forma Square Foot Occupancy % June 30, 2009 |
|---|---|---|---|---|---|---|---|
| **Wholly-owned properties** | | | | | | | |
| California | 11 | 8,122 | 3,599 | 857,163 | 381,753 | 44.4% | 41.0% |
| Florida | 4 | 3,603 | 816 | 349,610 | 71,545 | 26.6% | 26.3% |
| Illinois | 4 | 2,577 | 2,727 | 276,435 | 276,435 | 58.0% | 36.6% |
| Maryland | 3 | 2,221 | 1,397 | 236,877 | 149,937 | 44.4% | 40.1% |
| Massachusetts | 1 | 601 | 539 | 73,550 | 76,130 | 63.9% | 51.4% |
| New Jersey | 3 | 1,911 | 1,348 | 184,295 | 117,398 | 53.7% | 37.2% |
| Oregon | 1 | 744 | | 75,995 | | 28.0% | 0.0% |
| Tennessee | 1 | 634 | 434 | 67,110 | 52,803 | 90.1% | 91.1% |
| **Total Wholly-Owned Lease up** | **32** | **22,456** | **12,697** | **2,339,936** | **1,309,772** | **47.1%** | **43.7%** |

| Location | Number of Properties | Company Number of Units as of June 30, 2010(1) | Pro forma Number of Units as of June 30, 2009 | Company Net Rentable Square Feet as of June 30, 2010(2) | Pro forma Net Rentable Square Feet as of June 30, 2009 | Company Square Foot Occupancy % June 30, 2010 | Pro forma Square Foot Occupancy % June 30, 2009 |
|---|---|---|---|---|---|---|---|
| **Joint-venture properties** | | | | | | | |
| California | 6 | 4,184 | 2,141 | 440,629 | 236,422 | 52.1% | 57.0% |
| Illinois | 2 | 1,209 | 1,026 | 121,052 | 107,836 | 55.4% | 55.1% |
| Maryland | 1 | 854 | 853 | 71,349 | 71,349 | 86.0% | 79.1% |
| **Total Lease up Joint-Ventures** | **9** | **6,247** | **4,020** | **633,030** | **415,607** | **56.6%** | **60.3%** |

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| Location | Number of Properties | Company Number of Units as of June 30, 2010(1) | Pro forma Number of Units as of June 30, 2009 | Company Net Rentable Square Feet as of June 30, 2010(2) | Pro forma Net Rentable Square Feet as of June 30, 2009 | Company Square Foot Occupancy % June 30, 2010 | Pro forma Square Foot Occupancy % June 30, 2009 |
|---|---|---|---|---|---|---|---|
| **Managed properties** | | | | | | | |
| California | 2 | 1,739 | 1,595 | 236,239 | 189,276 | 60.6% | 52.8% |
| Colorado | 1 | 509 | 531 | 61,070 | 60,995 | 94.7% | 68.8% |
| Florida | 11 | 7,817 | 4,545 | 754,170 | 446,352 | 31.0% | 16.4% |
| Georgia | 6 | 3,596 | 3,584 | 535,236 | 533,716 | 49.9% | 37.2% |
| Illinois | 4 | 2,736 | 2,426 | 231,312 | 212,717 | 58.0% | 58.4% |
| Massachusetts | 2 | 1,204 | 645 | 123,308 | 70,000 | 39.7% | 21.6% |
| New Jersey | 1 | 850 | 860 | 78,295 | 77,905 | 69.7% | 54.6% |
| New York | 1 | 909 | 574 | 46,197 | 37,600 | 31.9% | 0.0% |
| Pennsylvania | 2 | 1,991 | 1,990 | 173,019 | 173,044 | 49.9% | 30.2% |
| Rhode Island | 1 | 985 | | 90,995 | | 14.5% | 0.0% |
| South Carolina | 1 | 767 | | 76,875 | | 20.9% | 0.0% |
| Tennessee | 1 | 506 | 508 | 69,550 | 69,550 | 63.6% | 53.7% |
| Texas | 1 | 934 | | 103,350 | | 11.9% | 0.0% |
| Utah | 1 | 654 | 659 | 75,601 | 75,477 | 74.3% | 34.6% |
| Virginia | 1 | 464 | 476 | 63,709 | 63,809 | 57.3% | 32.9% |
| **Total Lease up Managed Properties** | **36** | **25,661** | **18,393** | **2,718,926** | **2,010,441** | **44.8%** | **36.4%** |
| **Total Lease up Properties** | **77** | **54,364** | **35,110** | **5,691,892** | **3,735,820** | **47.1%** | **41.6%** |

*(1) Represents unit count as of June 30, 2010, which may differ from June 30, 2009 unit count due to unit conversions or expansions.*

*(2) Represents net rentable square feet as of June 30, 2010, which may differ from June 30, 2009 net rentable square feet due to unit conversions or expansions.*

**RESULTS OF OPERATIONS**

**Comparison of the three and six months ended June 30, 2010 and 2009**

**Overview**

Results for the three and six months ended June 30, 2010 include the operations of 649 properties (281 of which were consolidated and 368 of which were in joint ventures accounted for using the equity method) compared to the results for the three and six months ended June 30, 2009, which included the operations of 628 properties (285 of which were consolidated and 343 of which were in joint ventures accounted for using the equity method).

**Revenues**

The following table sets forth information on revenues earned for the periods indicated:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change | 2010 | 2009 | $ Change | % Change |
| **Revenues:** | | | | | | | | |
| Property rental | $ 56,786 | $ 58,705 | $ (1,919) | (3.3)% | $ 112,929 | $ 118,114 | $ (5,185) | (4.4)% |
| Management and franchise fees | 5,653 | 5,275 | 378 | 7.2% | 11,205 | 10,494 | 711 | 6.8% |
| Tenant reinsurance | 6,338 | 5,085 | 1,253 | 24.6% | 12,230 | 9,704 | 2,526 | 26.0% |
| Total revenues | $ 68,777 | $ 69,065 | $ (288) | (0.4)% | $ 136,364 | $ 138,312 | $ (1,948) | (1.4)% |

**Property Rental** The decreases in property rental revenues for the three and six months ended June 30, 2010 consist primarily of decreases of $4,130 and $7,422, respectively associated with the sale of 19 properties to an unconsolidated joint venture with Harrison Street on January 21, 2010. There were additional decreases in revenues of $359 and $701, respectively, relating to the deconsolidation of five properties as a result of our adoption of amended accounting guidance in ASC 810 effective January 1, 2010. These decreases were offset by increases in revenues of $1,395 and $2,507, respectively relating to increases in occupancy at our lease-up properties and $276 and $449, respectively, relating to acquisitions completed during 2009 and 2010. Rental revenue at our stabilized properties increased by $897 during the three months ended June 30, 2010 as a result of increases in occupancy and rental rates to incoming customers during the quarter. The rental income at our stabilized properties for the six months ended June 30, 2010 was $19 lower compared to the prior year as a result of lower rental rates during the first quarter of 2010.

**Management and Franchise Fees** Our taxable REIT subsidiary, Extra Space Management, Inc. manages properties owned by our joint ventures, franchisees and third parties. Management and franchise fees generally represent 6% of revenues generated from

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properties owned by third parties, franchisees, and unconsolidated joint ventures. The increase in management and franchise fees is related to the additional fees earned from the new joint venture with Harrison Street and to the increase in third-party managed properties compared to the same period in the prior year. We managed 140 third-party properties as of June 30, 2010 compared to 110 third-party properties as of June 30, 2009.

**Tenant Reinsurance** The increase in tenant reinsurance revenues is due to the increase of overall customer participation to approximately 59% at June 30, 2010 compared to approximately 53% at June 30, 2009.

**Expenses**

The following table sets forth information on expenses for the periods indicated:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change | 2010 | 2009 | $ Change | % Change |
| **Expenses:** | | | | | | | | |
| Property operations | $ 20,941 | $ 21,567 | $ (626) | (2.9)% | $ 42,897 | $ 44,434 | $ (1,537) | (3.5)% |
| Tenant reinsurance | 1,457 | 1,471 | (14) | (1.0)% | 2,680 | 2,732 | (52) | (1.9)% |
| Unrecovered development and acquisition costs | 142 | 18,801 | (18,659) | (99.2)% | 212 | 18,883 | (18,671) | (98.9)% |
| Severance costs | | 1,400 | (1,400) | (100.0)% | | 1,400 | (1,400) | (100.0)% |
| General and administrative | 11,229 | 10,612 | 617 | 5.8% | 22,285 | 21,203 | 1,082 | 5.1% |
| Depreciation and amortization | 12,202 | 12,840 | (638) | (5.0)% | 24,621 | 25,363 | (742) | (2.9)% |
| Total expenses | $ 45,971 | $ 66,691 | $ (20,720) | (31.1)% | $ 92,695 | $ 114,015 | $ (21,320) | (18.7)% |

**Property Operations** The decreases in property operations expense during the three and six months ended June 30, 2010 consist primarily of decreases of $1,472 and $2,639, respectively, related to the sale of 19 properties to an unconsolidated joint venture with Harrison Street on January 21, 2010 and $243 and $488, respectively, related to the deconsolidation of five properties as a result of our adoption of amended accounting guidance in ASC 810 effective January 1, 2010. These decreases were offset by increases in expenses of $1,089 and $1,590, for the three and six months ended June 30, 2010, respectively, primarily related to the addition of properties through acquisition and development.

**Tenant Reinsurance** Tenant reinsurance expense represents the costs that are incurred to provide tenant reinsurance, and has remained fairly stable when compared to the prior year.

**Unrecovered Development and Acquisition Costs** Unrecovered development and acquisition costs for the three and six months ended June 30, 2010 relate to unsuccessful development activities and costs associated with the acquisition of properties during the periods indicated. The costs for three and six months ended June 30, 2009 represent costs associated with the wind-down of the Company s development program. On June 2, 2009, the Company announced that it had begun a wind-down of its development program, and as a result of this decision, the Company recorded $18,883 of impairment charges in order to write down the carrying value of undeveloped land, development projects that will

be completed, and investments in development projects to their estimated fair values less costs to sell.

**Severance Costs** On June 2, 2009, the Company announced that it had begun a wind-down of its development program. As a result of this decision, the Company recorded severance costs of $1,400. There were no severance costs for the three and six months ended June 30, 2010.

**General and Administrative** The increase in general and administrative expenses for the three and six months ended June 30, 2010 was primarily due to the overall cost associated with the management of additional third-party properties. We managed 140 third-party properties as of June 30, 2010 compared to 110 third-party properties as of June 30, 2009.

**Depreciation and Amortization** Depreciation and amortization expense decreased as a result of the sale of 19 properties to an unconsolidated joint venture with Harrison Street on January 21, 2010. This decrease was partially offset by the additional depreciation on new properties added through acquisition and development.

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**Other Revenues and Expenses**

The following table sets forth information on other revenues and expenses for the periods indicated:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change | 2010 | 2009 | $ Change | % Change |
| **Other revenue and expenses:** | | | | | | | | |
| Interest expense | $ (16,233) | $ (15,816) | $ (417) | 2.6% | $ (33,507) | $ (31,611) | $ (1,896) | 6.0% |
| Non-cash interest expense related to amortization of discount on exchangeable senior notes | (416) | (563) | 147 | (26.1)% | (820) | (1,404) | 584 | (41.6)% |
| Interest income | 211 | 321 | (110) | (34.3)% | 536 | 853 | (317) | (37.2)% |
| Interest income on note receivable from Preferred Operating Partnership unit holder | 1,212 | 1,212 | | | 2,425 | 2,425 | | |
| Gain on repurchase of exchangeable senior notes | | 5,093 | (5,093) | (100.0)% | | 27,576 | (27,576) | (100.0)% |
| Equity in earnings of real estate ventures | 1,559 | 1,641 | (82) | (5.0)% | 3,060 | 3,536 | (476) | (13.5)% |
| Income tax expense | (1,214) | (943) | (271) | 28.7% | (2,259) | (1,591) | (668) | 42.0% |
| Total other revenue (expense) | $ (14,881) | $ (9,055) | $ (5,826) | 64.3% | $ (30,565) | $ (216) | $ (30,349) | 14,050.5% |

**Interest Expense** The increase in interest expense for the three and six months ended June 30, 2010 was primarily the result of higher interest rates on new loans obtained in 2010 and 2009. This increase was offset by a decrease of $1,718 and $3,050, respectively, for the three and six months ended June 30, 2010 relating to the deconsolidation of the debt related to the 19 properties sold to an unconsolidated joint venture with Harrison Street on January 21, 2010 and the deconsolidation of five properties as a result of our adoption of amended accounting guidance in ASC 810 effective January 1, 2010.

**Non-cash Interest Expense Related to Amortization of Discount on Exchangeable Senior Notes** The decrease in non-cash interest expense related to the amortization of discount on exchangeable senior notes for the three and six months ended June 30, 2010 was due to our repurchase of $114,500 in aggregate principal amount of our exchangeable senior notes during the first and second quarter of 2009. The discount associated with the repurchased notes was written off as a result of these repurchases, which decreased the ongoing amortization of the discount in 2010 when compared to 2009.

**Interest Income** The decrease in interest income is primarily due to a decrease in the average interest rate on our invested cash when compared to the same period in the prior year, along with a decrease in the average cash balance.

**Interest Income on Note Receivable from Preferred Operating Partnership Unit Holder** Represents interest on a $100,000 loan to the holders of the Preferred OP units.

**Gain on Repurchase of Exchangeable Senior Notes** The 2009 amounts represents the gain recorded on the repurchase of $114,500 total principal amount of our exchangeable senior notes in March and May 2009. There were no repurchases of exchangeable senior notes during the three and six months ended June 30, 2010.

**Equity in Earnings of Real Estate Ventures** The decrease in equity in earnings of real estate ventures for the three and six months ended June 30, 2010 are due primarily to the deconsolidation of five lease-up properties effective January 1, 2010.

**Income Tax Expense** The increase in income tax expense relates to the increased profitability of Extra Space Management Inc., our taxable REIT subsidiary.

**Net Income Allocated to Noncontrolling Interests**

The following table sets forth information on net income allocated to noncontrolling interests for the periods indicated:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change | 2010 | 2009 | $ Change | % Change |
| **Net income allocated to noncontrolling interests:** | | | | | | | | |
| Net income allocated to Preferred Operating Partnership | $ (1,507) | $ (1,369) | $ (138) | 10.1% | $ (2,986) | $ (3,175) | $ 189 | (6.0)% |
| Net (income) loss allocated to Operating Partnership and other non-controlling interests | (238) | 509 | (747) | (146.8)% | (370) | (828) | 458 | (55.3)% |
| Total income allocated to noncontrolling interests: | $ (1,745) | $ (860) | $ (885) | 102.9% | $ (3,356) | $ (4,003) | $ 647 | (16.2)% |

**Net Income Allocated to Preferred Operating Partnership Noncontrolling Interests** Income allocated to the Preferred Operating Partnership as of June 30, 2010 and 2009 equals the fixed distribution paid to the Preferred OP unit holder plus approximately 1.1% of the remaining net income (loss) allocated after the adjustment for the fixed distribution paid.

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**Net (Income) Loss Allocated to Operating Partnership and Other Noncontrolling Interests** Income allocated to the Operating Partnership as of June 30, 2010 and 2009 represents approximately 3.9% and 4.6%, respectively, of net income (loss) after the allocation of the fixed distribution paid to the Preferred OP unit holder. Loss allocated to other noncontrolling interests represents the losses allocated to partners in consolidated joint ventures.

**FUNDS FROM OPERATIONS**

Funds from Operations ( FFO ) provides relevant and meaningful information about our operating performance that is necessary, along with net income (loss) and cash flows, for an understanding of our operating results. We believe FFO is a meaningful disclosure as a supplement to net earnings. Net earnings assume that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. The values of real estate assets fluctuate due to market conditions and we believe FFO more accurately reflects the value of our real estate assets. FFO is defined by the National Association of Real Estate Investment Trusts, Inc. ( NAREIT ) as net income computed in accordance with GAAP, excluding gains or losses on sales of operating properties, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that to further understand our performance, FFO should be considered along with the reported net income (loss) and cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The 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 (loss) as an indication of our performance, as an alternative to net cash flow from operating activities, as a measure of liquidity, or as an indicator of our ability to make cash distributions. The following table sets forth the calculation of FFO for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **Net income (loss) attributable to common stockholders** | $ 6,180 | $ (7,541) | $ 9,748 | $ 20,078 |
| Adjustments: | | | | |
| Real estate depreciation | 11,494 | 11,554 | 23,153 | 22,984 |
| Amortization of intangibles | 94 | 725 | 277 | 1,248 |
| Joint venture real estate depreciation and amortization | 2,255 | 1,414 | 4,009 | 2,809 |
| Joint venture loss on sale of properties | | 188 | | 188 |
| Distributions paid on Preferred Operating Partnership units | (1,437) | (1,437) | (2,875) | (2,875) |
| Income allocated to Operating Partnership noncontrolling interests | 1,762 | 1,082 | 3,390 | 4,473 |
| Funds from operations | $ 20,348 | $ 5,985 | $ 37,702 | $ 48,905 |

**SAME-STORE STABILIZED PROPERTY RESULTS**

We consider our same-store stabilized portfolio to consist of only those properties which were wholly-owned at the beginning and at the end of the applicable periods presented that have achieved stabilization as of the first day of such period. The following table sets forth operating data for our same-store portfolio. We consider the following same-store presentation to be meaningful in regards to the properties shown below. These results provide information relating to property-level operating changes without the effects of acquisitions or completed developments.

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| | Three Months Ended June 30, 2010 | 2009 | Percent Change | Six Months Ended June 30, 2010 | 2009 | Percent Change |
|---|---|---|---|---|---|---|
| Same-store rental and tenant reinsurance revenues | $ 55,840 | $ 54,571 | 2.3% | $ 110,575 | $ 109,843 | 0.7% |
| Same-store operating and tenant reinsurance expenses | 19,052 | 18,801 | 1.3% | 38,812 | 38,977 | (0.4)% |
| Same-store net operating income | $ 36,788 | $ 35,770 | 2.8% | $ 71,763 | $ 70,866 | 1.3% |
| | | | | | | |
| Non same-store rental and tenant reinsurance revenues | $ 7,284 | $ 9,219 | (21.0)% | $ 14,584 | $ 17,975 | (18.9)% |
| Non same-store operating and tenant reinsurance expenses | $ 3,346 | $ 4,237 | (21.0)% | $ 6,765 | $ 8,189 | (17.4)% |
| | | | | | | |
| Total rental and tenant reinsurance revenues | $ 63,124 | $ 63,790 | (1.0)% | $ 125,159 | $ 127,818 | (2.1)% |
| Total operating and tenant reinsurance expenses | $ 22,398 | $ 23,038 | (2.8)% | $ 45,577 | $ 47,166 | (3.4)% |
| | | | | | | |
| Same-store square foot occupancy as of quarter end | 86.2% | 84.0% | | 86.2% | 84.0% | |
| | | | | | | |
| Properties included in same-store | 246 | 246 | | 246 | 246 | |

The increases in same-store rental revenues for the three and six months ended June 30, 2010 as compared to the three and six months ended June 30, 2009 were due primarily to increased rental rates to incoming and existing customers. The increase in same-store operating expenses for the three months ended June 30, 2010 as compared to June 30, 2009 was primarily due to increased property taxes partially offset by decreases to utilities and property insurance. The decrease in same-store operating expenses for the six months ended June 30, 2010 as compared to June 30, 2009 was primarily due to decreased utilities and property insurance.

**CASH FLOWS**

Cash flows provided by operating activities were $46,071 and $49,132, respectively, for the six months ended June 30, 2010 and 2009. The decreases compared to the prior year primarily relate to the decreases in net income exclusive of the gain on sale of exchangeable notes, severance costs and unrecovered development and acquisition costs incurred in 2009.

Cash used in investing activities was $23,681 and $66,507 for the six months ended June 30, 2010 and 2009, respectively. The increases relate primarily to a decrease in cash used for the development of real estate assets of $24,987 when compared to the six months ended June 30, 2009. Additionally, the Company received $15,750 of cash as a result of the sale of 19 properties into the joint venture with Harrison Street in January 2010. There was also a decrease in cash used for the acquisition of real estate assets of $7,541 when compared to the prior year.

Cash used in financing activities was $125,986 for the six months ended June 30, 2010, compared to cash provided by financing activities of $84,954 for the six months ended June 30, 2009. The decrease in cash provided by financing activities is primarily the result of decreased proceeds from notes payable and lines of credit in the current year of $173,453 when compared to the prior year. Additionally, the Company

paid an additional $129,055 of principal payments on notes payable and lines of credit during the six months ended June 30, 2010 when compared to the six months ended June 30, 2009. These decreases were offset by cash outflows of $80,853 paid by the Company during the six months ended June 30, 2009 to repurchase exchangeable senior notes, compared to no repurchases of exchangeable senior notes during the six months ended June 30, 2010.

**LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2010, we had $28,354 available in cash and cash equivalents. We intend to use this cash to repay debt scheduled to mature in 2010 and 2011 and for general corporate purposes. We are required to distribute at least 90% of our net taxable income, excluding net capital gains, to our stockholders on an annual basis to maintain our qualification as a REIT.

Our cash and cash equivalents are held in accounts managed by third party financial institutions and consist of invested cash and cash in our operating accounts. During 2009 and the first six months of 2010 we experienced no loss or lack of access to our cash or cash equivalents; however, there can be no assurance that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

On June 4, 2010, we entered into a $45,000 Third Credit Line that is collateralized by mortgages on certain lease-up real estate assets and matures on May 31, 2013 with a two-year extension option available. We intend to use the proceeds of the Third Credit Line to repay debt and for general corporate purposes. The Third Credit Line has an interest rate of LIBOR plus 350 basis points (3.85% at June 30, 2010). The Third Credit Line is guaranteed by the Company. As of June 30, 2010, the Credit Line had $19,200 of capacity based on the lease-up of the assets collateralizing the Third Credit Line. At June 30, 2010, $0 was drawn on the Third Credit Line.

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On February 13, 2009, we entered into a $50,000 Secondary Credit Line that is collateralized by mortgages on certain real estate assets and matures on February 13, 2012. We intend to use the proceeds of the Secondary Credit Line to repay debt and for general corporate purposes. The Secondary Credit Line has an interest rate of LIBOR plus 325 basis points (3.60% at June 30, 2010). As of June 30, 2010, $40,000 was drawn on the Secondary Credit Line. The Secondary Credit Line is guaranteed by the Company.

On October 19, 2007, we entered into a $100,000 Credit Line. The outstanding balance on the Credit Line at June 30, 2010 was $100,000. We intend to use the proceeds of the Credit Line to repay debt and for general corporate purposes. The Credit Line has an interest rate of between 100 and 205 basis points over LIBOR, depending on certain of our financial ratios (1.35% at June 30, 2010). The Credit Line is collateralized by mortgages on certain real estate assets and matures on October 31, 2010 with two one-year extensions available.

As of June 30, 2010, we had $1,184,419 of debt, resulting in a debt to total capitalization ratio of 48.1%. As of June 30, 2010, the ratio of total fixed rate debt and other instruments to total debt was 70.6% (including $126,894 on which we have interest rate swaps that have been included as fixed-rate debt). The weighted average interest rate of the total of fixed and variable rate debt at June 30, 2010 was 5.0%. Certain of our real estate assets are pledged as collateral for our debt. We are subject to certain restrictive covenants relating to our outstanding debt. We were in compliance with all financial covenants at June 30, 2010.

We expect to fund our short-term liquidity requirements, including operating expenses, recurring capital expenditures, dividends to stockholders, distributions to holders of OP units and interest on our outstanding indebtedness out of our operating cash flow, cash on hand and borrowings under our Credit Lines. In addition, the Company is actively pursuing additional term loans secured by unencumbered properties.

Our liquidity needs consist primarily of cash distributions to stockholders, facility development, property acquisitions, principal payments under our borrowings and non-recurring capital expenditures. We may from time to time seek to repurchase or redeem our outstanding debt, shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or redemptions, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. In addition, we evaluate, on an ongoing basis, the merits of strategic acquisitions and other relationships, which may require us to raise additional funds. We do not expect that our operating cash flow or cash balances will be sufficient to fund our liquidity needs and instead expect to fund such needs out of additional borrowings of secured or unsecured indebtedness, joint ventures with third parties, and from the proceeds of public and private offerings of equity and debt. Additional capital may not be available on terms favorable to us or at all. Any additional issuance of equity or equity-linked securities may result in dilution to our stockholders. In addition, any new securities we issue could have rights, preferences and privileges senior to holders of our common stock. We may also use OP units as currency to fund acquisitions from self-storage owners who desire tax-deferral in their exiting transactions.

The U.S. credit markets are experiencing significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. Continued uncertainty in the credit markets may negatively impact our ability to make acquisitions and fund current development projects. In addition, the financial condition of the lenders of our credit facilities may worsen to the point that they default on their obligations to make available to us the funds under those facilities. A prolonged downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing. These events in the credit markets have also had an adverse effect on other financial markets in the United States, which may make it more difficult or costly for us to raise capital through the issuance of common stock, preferred stock or other equity securities. These disruptions in the financial market may have other adverse effects on us or the economy generally, which could cause our stock price to decline.

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**OFF-BALANCE SHEET ARRANGEMENTS**

Except as disclosed in the notes to our condensed consolidated financial statements, we do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purposes entities, which typically are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, except as disclosed in the notes to our condensed consolidated financial statements, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitments or intent to provide funding to any such entities. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Our exchangeable senior notes provide for excess exchange value to be paid in shares of our common stock if our stock price exceeds a certain amount. See the notes to our condensed consolidated financial statements for a further description of our exchangeable senior notes.

**CONTRACTUAL OBLIGATIONS**

The following table sets forth information on payments due by period as of June 30, 2010:

| | Payments due by Period: | | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | After 5 Years |
| Operating leases | $ 60,384 | $ 6,024 | $ 10,071 | $ 7,695 | $ 36,594 |
| Notes payable, notes payable to trusts, exchangeable senior notes and lines of credit | | | | | |
| Interest | 467,979 | 58,661 | 103,719 | 76,451 | 229,148 |
| Principal | 1,184,419 | 117,445 | 273,894 | 211,374 | 581,706 |
| Total contractual obligations | $ 1,712,782 | $ 182,130 | $ 387,684 | $ 295,520 | $ 847,448 |

At June 30, 2010, the weighted-average interest rate for all fixed rate loans was 5.6%, and the weighted-average interest rate for all variable rate loans was 3.5%.

**FINANCING STRATEGY**

We will continue to employ leverage in our capital structure in amounts reviewed from time to time by our board of directors. Although our board of directors has not adopted a policy which limits the total amount of indebtedness that we may incur, we will consider a number of factors in evaluating our level of indebtedness from time to time, as well as the amount of such indebtedness that will be either fixed or variable rate. In making financing decisions, we will consider factors including but not limited to:

- the interest rate of the proposed financing;
- the extent to which the financing impacts flexibility in managing our properties;
- prepayment penalties and restrictions on refinancing;
- the purchase price of properties acquired with debt financing;
- long-term objectives with respect to the financing;
- target investment returns;
- the ability of particular properties, and our company as a whole, to generate cash flow sufficient to cover expected debt service payments;
- overall level of consolidated indebtedness;
- timing of debt and lease maturities;
- provisions that require recourse and cross-collateralization;

- corporate credit ratios including debt service coverage, debt to total capitalization and debt to undepreciated assets; and
- the overall ratio of fixed and variable rate debt.

Our indebtedness may be recourse, non-recourse or cross-collateralized. If the indebtedness is non-recourse, the collateral will be limited to the particular properties to which the indebtedness relates. In addition, we may invest in properties subject to existing loans collateralized by mortgages or similar liens on our properties, or may refinance properties acquired on a leveraged basis. We may use the proceeds from any borrowings to refinance existing indebtedness, to refinance investments, including the redevelopment of existing properties, for general working capital or to purchase additional interests in partnerships or joint ventures or for other purposes when we believe it is advisable.

We may from time to time seek to retire, repurchase or redeem our additional outstanding debt including our exchangeable senior notes as well as shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or redemptions, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

**SEASONALITY**

The self-storage business is subject to seasonal fluctuations. A greater portion of revenues and profits are realized from May through September. Historically, our highest level of occupancy has been as of the end of July, while our lowest level of occupancy has been in late February and early March. Results for any quarter may not be indicative of the results that may be achieved for the full fiscal year.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Our future income, cash flows and fair values of financial instruments are dependent upon prevailing market interest rates.

**Interest Rate Risk**

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

As of June 30, 2010, we had $1.2 billion in total debt, of which $348.0 million was subject to variable interest rates (excluding debt with interest rate swaps). If LIBOR were to increase or decrease by 100 basis points, the increase or decrease in interest expense on the variable rate debt (excluding variable rate debt with interest rate floors) would increase or decrease future earnings and cash flows by $2.1 million annually.

Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur. Further, in the event of a change of that magnitude, we may take 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, these analyses assume no changes in our financial structure.

The fair values of our notes receivable and our fixed rate notes payable are as follows:

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | **Fair Value** | **Carrying Value** | **Fair Value** | **Carrying Value** |
| Note receivable from Preferred Operating Partnership unit holder | $ 118,382 | $ 100,000 | $ 112,740 | $ 100,000 |
| Fixed rate notes payable and notes payable to trusts | $ 836,720 | $ 748,770 | $ 1,067,653 | $ 1,015,063 |
| Exchangeable senior notes | $ 124,384 | $ 87,663 | $ 110,122 | $ 87,663 |

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**ITEM 4. CONTROLS AND PROCEDURES**

**(1) Disclosure Controls and Procedures**

We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports we file pursuant to the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of disclosure controls and procedures in Rule 13a-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide a reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We have a disclosure committee that is responsible to ensure that all disclosures made by the Company to its security holders or to the investment community will be accurate and complete and fairly present the Company s financial condition and results of operations in all material respects, and are made on a timely basis as required by applicable laws, regulations and stock exchange requirements.

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

**(2) Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during our most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in various litigation and proceedings in the ordinary course of business. We are not a party to any material litigation or legal proceedings, or to the best of our knowledge, any threatened litigation or legal proceedings, which, in the opinion of management, are expected

to have a material adverse effect on our financial condition or results of operations either individually or in the aggregate.

**ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our 2009 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certifications of the 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. |
| 101 | The following materials from Extra Space Storage Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 are formatted in XBRL (eXtensible Business Reporting Language): (1) the Consolidated Balance Sheets, (2) the Consolidated Statements of Operations, (3) the Consolidated Statement of Equity, (4) the Consolidated Statements of Cash Flows and (5) related notes to these financial statements, tagged as blocks of text. |

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*These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of Extra Space Storage Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | EXTRA SPACE STORAGE INC.<br>*Registrant* |
| Date: August 6, 2010 | /s/ Spencer F. Kirk<br>Spencer F. Kirk<br>*Chairman and Chief Executive Officer*<br>*(Principal Executive Officer)* |
| Date: August 6, 2010 | /s/ Kent W. Christensen<br>Kent W. Christensen<br>*Executive Vice President and Chief Financial Officer*<br>*(Principal Financial Officer)* |