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

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-32269

**EXTRA SPACE STORAGE INC.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation or organization)

**20-1076777**

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

**2795 East Cottonwood Parkway, Suite 400  
Salt Lake City, Utah 84121**

(Address of principal executive offices)

Registrant's telephone number, including area code: **(801) 365-4600**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

**The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of October 31, 2012, was 104,322,649.**

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**EXTRA SPACE STORAGE INC.  
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**STATEMENT ON FORWARD-LOOKING INFORMATION**

Certain information set forth in this report contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as “believes,” “expects,” “estimates,” “may,” “will,” “should,” “anticipates,” or “intends”, or the negative of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management’s examination of historical operating trends and estimate of future earnings, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management’s expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. Any forward-looking statements should be considered in light of the risks referenced in “Part II. Item 1A. Risk Factors” below and in “Part I. Item 1A. Risk Factors” included in our most recent Annual Report on Form 10-K. Such factors include, but are not limited to:

- adverse changes in general economic conditions, the real estate industry and the markets in which we operate;
- the effect of competition from new and existing self-storage facilities or other storage alternatives, which could cause rents and occupancy rates to decline;
- difficulties in our ability to evaluate, finance, complete and integrate acquisitions and developments successfully and to lease up those properties, which could adversely affect our profitability;
- potential liability for uninsured losses and environmental contamination;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing real estate investment trusts (“REITs”), which could increase our expenses and reduce our cash available for distribution;
- disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;
- increased interest rates and operating costs;
- reductions in asset valuations and related impairment charges;

- the failure of our joint venture partners to fulfill their obligations to us or their pursuit of actions that are inconsistent with our objectives;
- the failure to maintain our REIT status for federal income tax purposes;
- economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan; and
- difficulties in our ability to attract and retain qualified personnel and management members.

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

**Extra Space Storage Inc.**  
**Condensed Consolidated Balance Sheets**  
(amounts in thousands, except share data)

	<u>September 30, 2012</u> (Unaudited)	<u>December 31, 2011</u>
<b>Assets:</b>		
Real estate assets, net	\$ 2,741,945	\$ 2,263,795
Investments in real estate ventures	121,269	130,410
Cash and cash equivalents	43,608	26,484
Restricted cash	23,384	25,768
Receivables from related parties and affiliated real estate joint ventures	10,930	18,517
Other assets, net	71,786	51,276
Total assets	<u>\$ 3,012,922</u>	<u>\$ 2,516,250</u>
<b>Liabilities, Noncontrolling Interests and Equity:</b>		
Notes payable	\$ 1,226,899	\$ 937,001
Premium on notes payable	3,638	4,402
Notes payable to trusts	119,590	119,590
Exchangeable senior notes	—	87,663
Lines of credit	240,000	215,000
Accounts payable and accrued expenses	49,609	45,079
Other liabilities	43,034	33,754
Total liabilities	<u>1,682,770</u>	<u>1,442,489</u>
Commitments and contingencies		
<b>Noncontrolling Interests and Equity:</b>		
Extra Space Storage Inc. stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized, 104,322,435 and 94,783,590 shares issued and outstanding at September 30, 2012, and December 31, 2011, respectively	1,043	948
Paid-in capital	1,531,975	1,290,021
Accumulated other comprehensive deficit	(14,956)	(7,936)
Accumulated deficit	(243,546)	(264,086)
Total Extra Space Storage Inc. stockholders' equity	1,274,516	1,018,947
Noncontrolling interest represented by Preferred Operating Partnership units, net of \$100,000 note receivable	29,829	29,695
Noncontrolling interests in Operating Partnership	24,699	24,018
Other noncontrolling interests	1,108	1,101
Total noncontrolling interests and equity	<u>1,330,152</u>	<u>1,073,761</u>
Total liabilities, noncontrolling interests and equity	<u>\$ 3,012,922</u>	<u>\$ 2,516,250</u>

See accompanying notes to unaudited condensed consolidated financial statements.

**Extra Space Storage Inc.**  
**Condensed Consolidated Statements of Operations**  
(amounts in thousands, except share data)  
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Property rental	\$ 94,065	\$ 69,475	\$ 249,193	\$ 195,265
Tenant reinsurance	9,495	8,269	27,060	22,889
Management and franchise fees	6,231	6,353	19,476	18,464
Total revenues	<u>109,791</u>	<u>84,097</u>	<u>295,729</u>	<u>236,618</u>
<b>Expenses:</b>				
Property operations	30,115	24,270	82,723	70,326
Tenant reinsurance	1,379	1,596	4,651	4,593
Acquisition related costs	2,486	346	3,564	2,165
General and administrative	12,559	12,306	37,744	36,396
Depreciation and amortization	19,768	14,364	52,918	42,041
Total expenses	<u>66,307</u>	<u>52,882</u>	<u>181,600</u>	<u>155,521</u>
Income from operations	43,484	31,215	114,129	81,097
Interest expense	(18,423)	(16,756)	(52,348)	(49,431)
Non-cash interest expense related to amortization of discount on exchangeable senior notes	—	(440)	(444)	(1,308)
Interest income	461	185	1,184	556
Interest income on note receivable from Preferred Operating Partnership unit holder	1,213	1,213	3,638	3,638
Income before equity in earnings of real estate ventures and income tax expense	26,735	15,417	66,159	34,552
Equity in earnings of real estate ventures	2,854	1,873	7,848	6,060
Equity in earnings of real estate ventures - gain on sale of real estate assets and purchase of joint venture partner's interest	13,620	—	19,049	—
Income tax expense	(1,656)	62	(4,240)	(603)
<b>Net income</b>	<u>41,553</u>	<u>17,352</u>	<u>88,816</u>	<u>40,009</u>
Net income allocated to Preferred Operating Partnership noncontrolling interests	(1,805)	(1,598)	(5,108)	(4,682)
Net income allocated to Operating Partnership and other noncontrolling interests	(1,142)	(493)	(2,475)	(1,156)
<b>Net income attributable to common stockholders</b>	<u>\$ 38,606</u>	<u>\$ 15,261</u>	<u>\$ 81,233</u>	<u>\$ 34,171</u>
Net income per common share				
Basic	\$ 0.37	\$ 0.16	\$ 0.81	\$ 0.37
Diluted	\$ 0.37	\$ 0.16	\$ 0.80	\$ 0.37
Weighted average number of common shares				
Basic	104,252,227	94,314,429	100,429,840	91,277,261
Diluted	108,755,316	98,867,803	104,981,176	95,866,290
<b>Cash dividends paid per common share</b>	\$ 0.20	\$ 0.14	\$ 0.60	\$ 0.42

See accompanying notes to unaudited condensed consolidated financial statements.

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Net income</b>	\$ 41,553	\$ 17,352	\$ 88,816	\$ 40,009
<b>Other Comprehensive income:</b>				
Change in fair value of interest rate swaps	(3,564)	(1,441)	(7,296)	(2,115)
Total comprehensive income	37,989	15,911	81,520	37,894
Less: comprehensive income attributable to noncontrolling interests	2,814	2,033	7,307	5,755
Comprehensive income attributable to common stockholders	\$ 35,175	\$ 13,878	\$ 74,213	\$ 32,139

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					Total Noncontrolling Interests and Equity
	Preferred Operating Partnership	Operating Partnership	Other	Shares	Par Value	Paid-in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	
<b>Balances at December 31, 2011</b>	\$ 29,695	\$ 24,018	\$ 1,101	94,783,590	\$ 948	\$ 1,290,021	\$ (7,936)	\$ (264,086)	\$ 1,073,761
Issuance of common stock upon the exercise of options	—	—	—	651,729	6	8,925	—	—	8,931
Restricted stock grants issued	—	—	—	168,052	2	—	—	—	2
Restricted stock grants cancelled	—	—	—	(15,621)	—	—	—	—	—
Issuance of common stock, net of offering costs	—	—	—	8,050,000	80	226,612	—	—	226,692
Issuance of common stock related to settlement of exchangeable senior notes	—	—	—	684,685	7	—	—	—	7
Compensation expense related to stock-based awards	—	—	—	—	—	3,318	—	—	3,318
New issuance of Operating Partnership units	—	429	—	—	—	—	—	—	429
Redemption of Operating Partnership units for cash	—	(155)	—	—	—	—	—	—	(155)
Net income	5,108	2,455	20	—	—	—	—	81,233	88,816
Other comprehensive loss	(67)	(209)	—	—	—	—	(7,020)	—	(7,296)
Tax effect from vesting of restricted stock grants and stock option exercises	—	—	—	—	—	3,099	—	—	3,099
Distributions to Operating Partnership units held by noncontrolling interests	(4,907)	(1,839)	—	—	—	—	—	—	(6,746)
Distributions to other noncontrolling interests	—	—	(13)	—	—	—	—	—	(13)
Dividends paid on common stock at \$0.60 per share	—	—	—	—	—	—	—	(60,693)	(60,693)
<b>Balances at September 30, 2012</b>	\$ 29,829	\$ 24,699	\$ 1,108	104,322,435	\$ 1,043	\$ 1,531,975	\$ (14,956)	\$ (243,546)	\$ 1,330,152

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)

	For the Nine Months ended September 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 88,816	\$ 40,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,918	42,041
Amortization of deferred financing costs	5,016	3,720
Non-cash interest expense related to amortization of discount on exchangeable senior notes	444	1,308
Non-cash interest expense related to amortization of premium on notes payable	(951)	—
Compensation expense related to stock-based awards	3,318	3,895
Gain on purchase of joint venture partner's interest	(13,499)	—
Distributions from real estate ventures in excess of earnings	1,642	4,665
Changes in operating assets and liabilities:		
Receivables from related parties and affiliated real estate joint ventures	7,587	(301)
Other assets	4,866	1,108
Accounts payable and accrued expenses	4,530	5,681
Other liabilities	(1,726)	(1,469)
Net cash provided by operating activities	<u>152,961</u>	<u>100,657</u>
<b>Cash flows from investing activities:</b>		
Acquisition of real estate assets	(365,616)	(108,403)
Development and construction of real estate assets	(3,137)	(6,315)
Investments in real estate ventures	(1,053)	(3,737)
Return of investment in real estate ventures	1,848	4,614
Change in restricted cash	2,384	146
Purchase of notes receivable	(7,875)	(51,000)
Purchase of equipment and fixtures	(1,620)	(4,493)
Net cash used in investing activities	<u>(375,069)</u>	<u>(169,188)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from the sale of common stock, net of offering costs	226,692	112,352
Repurchase of exchangeable senior notes	(87,663)	—
Proceeds from notes payable and lines of credit	640,655	370,242
Principal payments on notes payable and lines of credit	(473,349)	(389,706)
Deferred financing costs	(8,427)	(4,149)
Redemption of Operating Partnership units held by noncontrolling interest	(155)	(271)
Net proceeds from exercise of stock options	8,931	12,114
Dividends paid on common stock	(60,693)	(38,785)
Distributions to noncontrolling interests	(6,759)	(6,121)
Net cash provided by financing activities	<u>239,232</u>	<u>55,676</u>
Net increase (decrease) in cash and cash equivalents	17,124	(12,855)
Cash and cash equivalents, beginning of the period	26,484	46,750
Cash and cash equivalents, end of the period	<u>\$ 43,608</u>	<u>\$ 33,895</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Nine Months ended September 30,	
	2012	2011
<b>Supplemental schedule of cash flow information:</b>		
Interest paid, net of amounts capitalized	\$ 47,816	\$ 45,048

**Supplemental schedule of noncash investing and financing activities:**

Redemption of Operating Partnership units held by noncontrolling interests for common stock:			
Noncontrolling interests in Operating Partnership	\$	—	\$ 2,344
Common stock and paid-in capital		—	(2,344)
Tax effect from vesting of restricted stock grants and stock option exercises:			
Other assets	\$	3,099	\$ 1,918
Paid-in capital		(3,099)	(1,918)
Acquisitions of real estate assets:			
Real estate assets, net	\$	148,021	\$ 8,660
Notes payable assumed		(147,592)	(8,660)
Operating Partnership units issued		(429)	—
Receivable from sale of interest in real estate ventures:			
Other assets	\$	3,349	\$ —
Investments in real estate ventures		(3,349)	—

See accompanying notes to unaudited condensed consolidated financial statements.

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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 (“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 September 30, 2012, the Company had direct and indirect equity interests in 720 operating storage facilities. In addition, the Company managed 190 properties for franchisees and third parties, bringing the total number of operating properties which it owns and/or manages to 910. These properties are located in 34 states, Washington, D.C. and Puerto Rico.

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. 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 nine months ended September 30, 2012, are not necessarily indicative of results that may be expected for the year ending December 31, 2012. The condensed consolidated balance sheet as of December 31, 2011, 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, 2011, as filed with the Securities and Exchange Commission.

Certain amounts in the 2011 financial statements and supporting note disclosures have been reclassified to conform to the current period presentation. Such reclassifications did not impact previously reported net income or accumulated deficit.

**3. 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:

Description	September 30, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other liabilities - cash flow hedge swap agreements	\$ (15,607)	\$ —	\$ (15,607)	\$ —

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.

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There were no transfers of assets and liabilities between Level 1 and Level 2 during the three or nine months ended September 30, 2012. 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 or nine months ended September 30, 2012.

### *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 management'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.

In connection with the Company's acquisition of self-storage facilities, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values, which are estimated using significant unobservable inputs. The value of the tangible assets, consisting of land and buildings, is determined as if vacant. 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 value of tenant relationships based on the rent lost due to the amount of time required to replace existing customers, which is 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. Acquisition-related transaction costs are expensed as incurred.

### *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 September 30, 2012 and December 31, 2011 approximate fair value. The fair value of the Company's note receivable from Preferred Operating Partnership unit holder is based on the discounted estimated future cash flows of the note (categorized within Level 3 of the fair value hierarchy); the discount rate used approximates the current market rate for loans with similar maturities and credit quality. The fair values of the Company's fixed-rate notes payable, notes payable to trusts and exchangeable senior notes, were estimated using the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality.

The fair values of the Company's fixed-rate assets and liabilities are as follows:

	September 30, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Note receivable from Preferred Operating Partnership unit holder	\$ 108,925	\$ 100,000	\$ 104,049	\$ 100,000
Fixed-rate notes payable and notes payable to trusts	\$ 1,264,295	\$ 1,177,736	\$ 1,008,039	\$ 938,681
Exchangeable senior notes	\$ —	\$ —	\$ 92,265	\$ 87,663



[Table of Contents](#)**4. NET INCOME PER COMMON SHARE**

Basic net income per common share is computed by dividing net income 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 earnings 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 as-if-converted method. Potential common shares are securities (such as options, 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 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 that reduce earnings per share) are included.

The Company’s Operating Partnership had \$87,663 of exchangeable senior notes (the “Notes”) that were surrendered for exchange in April 2012. Prior to their exchange, the Notes could potentially have had a dilutive effect on the Company’s earnings per share calculations. The Notes were exchangeable by holders into shares of the Company’s common stock under certain circumstances per the terms of the indenture governing the Notes and at the time prior to surrender had an exchange price of \$23.20 per share. The Company had irrevocably agreed to pay only cash for the accreted principal amount of the Notes relative to its exchange obligations, but retained the right to satisfy the exchange obligations in excess of the accreted principal amount in cash and/or common stock. Though the Company retained that right, Accounting Standards Codification (“ASC”) 260, “*Earnings Per Share*,” required an assumption that shares would be used to pay the exchange obligations in excess of the accreted principal amount, and required 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 diluted share calculation for the three or nine months ended September 30, 2011 as the stock price during this time did not exceed the exchange price. No shares were included for the three or nine months ended September 30, 2012 as the Notes were no longer outstanding.

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 September 30, 2012 and 2011, options to purchase 15,223 and 120,634 shares of common stock, and for the nine months ended September 30, 2012 and 2011, options to purchase 54,959 and 106,726 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.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income attributable to common stockholders	\$ 38,606	\$ 15,261	\$ 81,233	\$ 34,171
Add: Income allocated to noncontrolling interest - Preferred Operating Partnership and Operating Partnership	2,938	2,092	7,563	5,846
Subtract: Fixed component of income allocated to noncontrolling interest - Preferred Operating Partnership	(1,438)	(1,438)	(4,313)	(4,313)
Net income for diluted computations	\$ 40,106	\$ 15,915	\$ 84,483	\$ 35,704
Weighted average number of common shares outstanding - basic	104,252,227	94,314,429	100,429,840	91,277,261
Operating Partnership units	3,060,467	3,049,935	3,060,467	3,049,935
Preferred Operating Partnership units	989,980	989,980	989,980	989,980
Shares related to Dilutive and Cancelled Stock Options	452,642	513,459	500,889	549,114
Weighted average number of common shares outstanding - diluted	108,755,316	98,867,803	104,981,176	95,866,290
Net income per common share				

Basic	\$	0.37	\$	0.16	\$	0.81	\$	0.37
Diluted	\$	0.37	\$	0.16	\$	0.80	\$	0.37

## 5. PROPERTY ACQUISITIONS

The following table summarizes the Company's acquisitions of operating properties for the nine months ended September 30, 2012, and does not include purchases of land or improvements made to existing assets:

Property Location	Number of Properties	Date of Acquisition	Consideration Paid					Acquisition Date Fair Value					Closing costs -	Source of Acquisition	Notes	
			Total	Cash Paid	Loan Assumed	Non-cash gain	Previous equity interest	Net Liabilities/ (Assets) Assumed	Value of OP Units Issued	Number of OP Units Issued	Land	Building				Intangible
Texas	1	2/29/2012	\$ 9,405	\$ 9,323	\$ —	\$ —	\$ —	\$ 82	\$ —	\$ —	\$ 1,036	\$ 8,133	\$ 187	\$ 49	Unrelated third party	
Maryland	1	3/7/2012	6,284	5,886	—	—	—	21	377	14,193	465	5,600	128	91	Unrelated third party	
Florida	3	5/2/2012	14,942	14,792	—	—	—	150	—	—	1,933	12,682	321	6	Unrelated third party	
Maryland	1	5/31/2012	6,501	6,438	—	—	—	11	52	1,814	1,185	5,051	147	118	Unrelated third party	
Various states	36	7/2/2012	322,516	162,705	145,000	13,499	3,355	(2,043)	—	—	67,550	246,133	8,142	691	Affiliated joint venture	(1)
New Jersey, New York	6	7/18/2012	55,622	55,748	—	—	—	(126)	—	—	8,584	45,359	1,227	452	Unrelated third party	
Colorado	1	7/18/2012	7,085	7,038	—	—	—	47	—	—	—	6,945	137	3	Unrelated third party	
South Carolina	1	7/19/2012	4,651	4,621	—	—	—	30	—	—	1,784	2,755	107	5	Unrelated third party	
California	1	7/26/2012	4,860	2,376	2,592	—	—	(108)	—	—	2,428	2,317	93	22	Unrelated third party	
New York	1	8/10/2012	15,300	15,377	—	—	—	(77)	—	—	2,800	12,173	269	58	Unrelated third party	
Texas	2	8/10/2012	9,948	9,775	—	—	—	173	—	—	4,869	4,826	241	12	Unrelated third party	
New Jersey	1	8/23/2012	9,091	9,099	—	—	—	(8)	—	—	2,144	6,660	158	129	Unrelated third party	
New Jersey	1	8/23/2012	15,475	15,431	—	—	—	44	—	—	1,890	13,112	269	204	Unrelated third party	
New Jersey	1	8/28/2012	13,678	13,678	—	—	—	—	—	—	1,511	11,732	241	194	Unrelated third party	
Virginia	1	9/20/2012	6,884	6,850	—	—	—	34	—	—	1,172	5,562	119	31	Unrelated third party	
Utah	1	9/28/2012	7,410	7,322	—	—	—	88	—	—	2,063	5,202	132	13	Related party	(2)

(1) This represents the acquisition of Prudential Real Estate Investors' (PREI®) 94.9% interest in the ESS PRISA III LLC joint venture ("PRISA III") that was formed in 2005, resulting in full ownership by the Company. The joint venture owned 36 properties located in 18 states.

(2) This property was purchased from Sandy Self Storage, LLC, which was partially owned by Kenneth T. Woolley, the son of Kenneth M. Woolley, Executive Chairman of the Board of Directors and Chief Investment Officer.

On July 31, 2012, the Company acquired the land it had previously been leasing associated with a property in Bethesda, Maryland for a cash payment of \$3,671.

As noted above, during the nine months ended September 30, 2012, the Company acquired 36 properties as part of the PRISA III acquisition. The following pro forma financial information is based on the combined historical financial statements of the Company and PRISA III and presents the Company's results as if the PRISA III acquisition had occurred as of January 1, 2011:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Total revenues	\$ 109,791	\$ 92,235	\$ 312,130	\$ 260,474
Net income attributable to common stockholders	\$ 38,606	\$ 16,978	\$ 84,575	\$ 38,819
Net income per common share				
Basic	\$ 0.37	\$ 0.18	\$ 0.84	\$ 0.43
Diluted	\$ 0.37	\$ 0.18	\$ 0.84	\$ 0.42

The following table summarizes the revenues and earnings related to PRISA III since the acquisition date, included in the consolidated income statement for the three and nine months ended September 30, 2012:

	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012
Total revenues	\$ 8,657	\$ 8,657
Net income attributable to common stockholders	\$ 3,067	\$ 3,067

## 6. VARIABLE INTERESTS

The Company has interests in two unconsolidated joint ventures with unrelated third parties which are variable interest entities ("VIEs"). The Company holds 18% and 39% of the equity interests in the VIE joint ventures ("VIE JVs"), and has 50% of the voting rights in each of the VIE JVs. Qualification of each VIE JV as a VIE was based on the determination that the equity investments at risk for each of these joint ventures were 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 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. The payables to the Company consist of amounts owed for expenses paid on behalf of the joint ventures by the Company as manager and mortgage notes payable to the Company. The Company performs management services for the VIE JVs in exchange for a management fee of approximately 6% of cash collected by the properties. Except as disclosed, 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 September 30, 2012 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 material 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. The Company believes the payables to the Company are collectible. Additionally, repossessing and/or selling the self-storage facility and land that collateralize the loans could provide funds sufficient to reimburse the Company.

In addition to the VIEs mentioned above, on May 1, 2012, the Company purchased two notes receivable from Capmark Bank for a total of \$7,875. These receivables are due from Spacebox Land O'Lakes, LLC and Spacebox North Fort Myers, LLC (collectively, "Spacebox"), a third party. The notes bear interest at 15% per annum and are due April 30, 2013. Spacebox owns two self-storage properties located in Florida, which are collateral for the notes. The Company began performing management services for these two properties at the time of the purchase of the notes receivable, for a management fee of approximately 6% of the cash collected by the properties. These notes receivable are included in other assets on the condensed consolidated balance sheet.

The Company determined that the two Spacebox entities qualify as VIEs because the equity investments at risk for each of these entities were not sufficient based on a qualitative and quantitative analysis performed by the Company. The Company is not the primary beneficiary of either VIE. As of September 30, 2012, the Company's maximum exposure to loss for these entities is equal to the balance of the notes receivable, accrued interest on the notes receivable, and payables due to the Company. The payables to the Company consist of amounts owed for expenses paid on behalf of Spacebox by the Company as manager. The Company believes the notes receivable are collectible. Also, repossessing and/or selling the self-storage properties that collateralize the loans could provide funds sufficient to reimburse the Company.

The following table compares the Company's liability balance to the respective VIEs and the maximum exposure to loss related to each VIE as of September 30, 2012, after netting such liability balance:

	Liability Balance	Investment Balance	Balance of Guaranteed Loan	Payables to Company	Maximum Exposure to Loss	Difference
Extra Space of Montrose Avenue LLC	\$ —	\$ 1,149	\$ 5,120	\$ 2,196	\$ 8,465	\$ (8,465)
Extra Space of Sacramento One LLC	—	(996)	4,307	6,094	9,405	(9,405)
Spacebox Land O' Lakes LLC	—	—	—	3,781	3,781	(3,781)
Spacebox North Fort Myers, LLC	—	—	—	4,452	4,452	(4,452)
	<u>\$ —</u>	<u>\$ 153</u>	<u>\$ 9,427</u>	<u>\$ 16,523</u>	<u>\$ 26,103</u>	<u>\$ (26,103)</u>

The Operating Partnership has three wholly-owned unconsolidated subsidiaries ("Trust," "Trust II" and "Trust III," together, the "Trusts") that have issued trust preferred securities to third parties and common securities to the Operating Partnership. The proceeds from the sale of the preferred and common securities were loaned in the form of notes to the Operating Partnership. The Trusts 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 for the proceeds as discussed above, which are owed to the Trusts. The Company has also included its investment in the Trusts' common securities in other assets on the condensed consolidated balance sheets.

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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.

The following is a tabular comparison of the liabilities the Company has recorded as a result of its involvement with the Trusts to the maximum exposure to loss the Company is subject to as a result of such involvement as of September 30, 2012:

	Notes payable to Trusts	Investment Balance	Maximum exposure to loss	Difference
Trust	\$ 36,083	\$ 1,083	\$ 35,000	\$ —
Trust II	42,269	1,269	41,000	—
Trust III	41,238	1,238	40,000	—
	<u>\$ 119,590</u>	<u>\$ 3,590</u>	<u>\$ 116,000</u>	<u>\$ —</u>

The Company had no consolidated VIEs during the three or nine months ended September 30, 2012 or 2011.

## 7. 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 operations.

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 the Company's fixed- and variable-rate borrowings. The interest rate swaps held by the Company all have been designated as cash flow hedges of variable-rate borrowings. For cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income, outside of earnings, and subsequently reclassified to earnings when the hedged transaction affects earnings.

The following table summarizes the terms of the Company's fifteen cash flow hedges at September 30, 2012:

Hedge Product	Original Notional Amounts	Strike	Effective Dates	Maturity Dates
Swap Agreements	\$8,462 - \$80,100	2.91% - 6.98%	2/1/2009 - 8/28/2012	6/30/2013 - 5/1/2020

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

Type	Classification of Income (Expense)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2012	2011	2012	2011
Swap Agreements	Interest expense	\$ (1,876)	\$ (940)	\$ (4,429)	\$ (2,954)

Information relating to the gain (loss) recognized on the interest rate swap agreements is as follows:

Type	Gain (loss) recognized in OCI	Location of amounts reclassified from OCI into income	Gain (loss) reclassified from OCI
	September 30, 2012		For the Nine Months Ended September 30, 2012
Swap Agreements	\$ (7,296)	Interest expense	\$ (4,429)

The interest rate swap agreements were highly effective for the three and nine months ended September 30, 2012. The gain (loss) reclassified from other comprehensive income ("OCI") in the preceding table represents the effective portion of the Company's cash flow hedges reclassified from OCI to interest expense during the nine months ended September 30, 2012.

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The balance sheet classification and carrying amounts of the derivative instruments are as follows:

Derivatives designated as hedging instruments:	Asset (Liability) Derivatives			
	September 30, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Swap Agreements	Other liabilities	\$ (15,607)	Other liabilities	\$ (8,311)

## 8. EXCHANGEABLE SENIOR NOTES

On March 27, 2007, the Company's Operating Partnership issued \$250,000 of 3.625% Exchangeable Senior Notes. The Notes bore interest at 3.625% per annum and contained an exchange settlement feature, which provided that the Notes, under certain circumstances, could have been exchangeable for cash (up to the principal amount of the Notes) and, with respect to any excess exchange value, for cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock at the option of the Operating Partnership.

On March 1, 2012, the Company announced that the holders of the Operating Partnership's then-outstanding \$87,663 principal amount of 3.625% Exchangeable Senior Notes had the right to surrender their Notes for repurchase by the Operating Partnership on April 1, 2012 for 100% of the principal

amount of the Notes, pursuant to the holders' rights under the indenture governing the Notes. In addition, the Company announced that the Operating Partnership had given notice of its intention to redeem all of the Notes not otherwise surrendered for repurchase or exchange on April 5, 2012, pursuant to its option under the indenture, at a redemption price of 100% of the principal amount of the Notes, plus accrued and unpaid interest to the redemption date. In connection with the redemption, holders of the Notes had the right to exchange their Notes at an exchange rate of 43.1091 shares of the Company's common stock per \$1,000 principal amount of the Notes surrendered. The Notes surrendered for exchange could be settled in cash or a combination of cash and stock, subject to the determination of the Operating Partnership.

As of April 3, 2012, the Company received notice that the holders of the entire \$87,663 principal amount of the Notes had surrendered their Notes for exchange. On April 26, 2012, the Company settled the exchange by paying cash for the principal amount of the Notes, as required by the indenture, and issuing 684,685 shares of common stock for the value in excess of the principal amount. The issuance of shares was reflected as an increase in paid-in-capital with a corresponding decrease in paid-in-capital attributable to the reacquisition of the equity component of the convertible debt, as discussed below.

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, accounted for the liability and equity components of the Notes separately. The equity component was included in paid-in-capital in stockholders' equity in the condensed consolidated balance sheet, and the value of the equity component was treated as original issue discount for purposes of accounting for the debt component. The discount was amortized over the period of the debt as additional interest expense.

## **9. STOCK OFFERING**

On April 16, 2012, the Company issued and sold 8,050,000 shares of its common stock in a public offering at a price of \$28.22 per share. The Company received gross proceeds of \$227,171. Transaction costs were \$479, resulting in net proceeds of \$226,692.

## **10. 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 989,980 Preferred OP units of the Operating Partnership. The self-storage facilities are located in California and Hawaii.

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.

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The Operating Partnership entered into a Second Amended and Restated Agreement of Limited Partnership (as subsequently amended, 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.

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 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 qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (1) the carrying amount, or (2) its redemption value as of the end of the period in which the determination is made.

## **11. 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 96.3% majority ownership interest therein as of September 30, 2012. The remaining ownership interests in the Operating Partnership (including Preferred OP units) of 3.7% are held by certain former owners of assets acquired by the Operating Partnership. As of September 30, 2012, the Operating Partnership had 3,060,467

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 OP 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 (ten-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 September 30, 2012, was \$33.53 and there were 3,060,467 common OP units outstanding. Assuming that all of the unit holders exercised their right to redeem all of their common OP units on September 30, 2012, and the Company elected to pay the noncontrolling members cash, the Company would have paid \$102,617 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 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 qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (1) the carrying amount, or (2) its redemption value as of the end of the period in which the determination is made.

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## 12. OTHER NONCONTROLLING INTERESTS

Other noncontrolling interests represent the ownership interests of various third parties in three consolidated self-storage properties as of September 30, 2012. Two of these consolidated properties were under development, and one was in the lease-up stage at September 30, 2012. The ownership interests of the third-party owners range from 5.0% to 27.6%. 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 allocated to Operating Partnership and other noncontrolling interests in the condensed consolidated statement of operations.

## 13. EQUITY IN EARNINGS OF REAL ESTATE VENTURES — GAIN ON SALE OF JOINT VENTURE REAL ESTATE ASSETS AND PURCHASE OF JOINT VENTURE PARTNER'S INTEREST

On January 15, 2012, the Company sold its 40% equity interest in U-Storage de Mexico S.A. and related entities to its joint venture partners for \$4,841. The Company received cash of \$1,492 and a note receivable of \$3,349. No gain or loss was recorded on the sale.

On February 17, 2012, a joint venture in which the Company held a 40% equity interest sold its only self-storage property. The property was located in New York. As a result of the sale, the joint venture was dissolved, and the Company received cash proceeds which resulted in a gain of \$5,550.

On July 2, 2012, the Company completed the acquisition of PREI®'s 94.9% interest in PRISA III. PRISA III was formed in 2005 and owned 36 properties located in 18 states. Prior to the acquisition, the remaining 5.1% interest was owned by the Company, which accounted for its investment in PRISA III using the equity method. Subsequent to the acquisition, the Company had full ownership. GAAP requires an entity that completes a business combination in stages to remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognize the resulting gain or loss, if any, in earnings. The Company recorded a gain of \$13,499 related to this transaction, which represents the increase in fair value of the Company's 5.1% interest in PRISA III from the formation of the joint venture to the acquisition date.

## 14. 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:

	September 30, 2012	December 31, 2011
<b>Balance Sheet</b>		
Investment in real estate ventures		
Rental operations	\$ 121,269	\$ 130,410
<b>Total assets</b>		
Property management, acquisition and development	\$ 244,653	\$ 250,953
Rental operations	2,743,474	2,243,441
Tenant reinsurance	24,795	21,856
	<u>\$ 3,012,922</u>	<u>\$ 2,516,250</u>

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Statement of Operations</b>				
Total revenues				
Property management, acquisition and development	\$ 6,231	\$ 6,353	\$ 19,476	\$ 18,464
Rental operations	94,065	69,475	249,193	195,265
Tenant reinsurance	9,495	8,269	27,060	22,889
	<u>\$ 109,791</u>	<u>\$ 84,097</u>	<u>\$ 295,729</u>	<u>\$ 236,618</u>
Operating expenses, including depreciation and amortization				
Property management, acquisition and development	\$ 16,008	\$ 13,237	\$ 44,203	\$ 40,773
Rental operations	48,920	38,049	132,746	110,155
Tenant reinsurance	1,379	1,596	4,651	4,593
	<u>\$ 66,307</u>	<u>\$ 52,882</u>	<u>\$ 181,600</u>	<u>\$ 155,521</u>
Income (loss) from operations				
Property management, acquisition and development	\$ (9,777)	\$ (6,884)	\$ (24,727)	\$ (22,309)
Rental operations	45,145	31,426	116,447	85,110
Tenant reinsurance	8,116	6,673	22,409	18,296
	<u>\$ 43,484</u>	<u>\$ 31,215</u>	<u>\$ 114,129</u>	<u>\$ 81,097</u>
Interest expense				
Property management, acquisition and development	\$ (848)	\$ (926)	\$ (1,843)	\$ (2,531)
Rental operations	(17,575)	(16,270)	(50,949)	(48,208)
	<u>\$ (18,423)</u>	<u>\$ (17,196)</u>	<u>\$ (52,792)</u>	<u>\$ (50,739)</u>
Interest income				
Property management, acquisition and development	\$ 459	\$ 182	\$ 1,176	\$ 548
Tenant reinsurance	2	3	8	8
	<u>\$ 461</u>	<u>\$ 185</u>	<u>\$ 1,184</u>	<u>\$ 556</u>
Interest income on note receivable from Preferred Operating Partnership unit holder				
Property management, acquisition and development	\$ 1,213	\$ 1,213	\$ 3,638	\$ 3,638
Equity in earnings of real estate ventures				
Rental operations	\$ 2,854	\$ 1,873	\$ 7,848	\$ 6,060
Equity in earnings of real estate ventures-gain on sale of real estate assets and purchase of partner's interest				
Property management, acquisition and development	\$ 13,620	\$ —	\$ 19,049	\$ —
Income tax expense				
Property management, acquisition and development	\$ 1,354	\$ 2,570	\$ 4,096	\$ 6,330
Rental operations	(169)	(169)	(491)	(527)
Tenant reinsurance	(2,841)	(2,339)	(7,845)	(6,406)
	<u>\$ (1,656)</u>	<u>\$ 62</u>	<u>\$ (4,240)</u>	<u>\$ (603)</u>
Net income (loss)				
Property management, acquisition and development	\$ 6,021	\$ (3,845)	\$ 1,389	\$ (14,324)
Rental operations	30,255	16,860	72,855	42,435
Tenant reinsurance	5,277	4,337	14,572	11,898
	<u>\$ 41,553</u>	<u>\$ 17,352</u>	<u>\$ 88,816</u>	<u>\$ 40,009</u>
<b>Depreciation and amortization expense</b>				
Property management, acquisition and development	\$ 963	\$ 585	\$ 2,895	\$ 2,212
Rental operations	18,805	13,779	50,023	39,829
	<u>\$ 19,768</u>	<u>\$ 14,364</u>	<u>\$ 52,918</u>	<u>\$ 42,041</u>
<b>Statement of Cash Flows</b>				

Acquisition of real estate assets			
Property management, acquisition and development		\$ (365,616)	\$ (108,403)
Development and construction of real estate assets			
Property management, acquisition and development		\$ (3,137)	\$ (6,315)

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## 15. COMMITMENTS AND CONTINGENCIES

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

	Date of Guaranty	Loan Maturity Date	Guaranteed Loan Amount	Estimated Fair Value of Assets
Extra Space of Montrose Avenue LLC	Dec-10	Dec-13	\$ 5,120	\$ 8,364
Extra Space of Sacramento One LLC	Apr-09	Apr-14	\$ 4,307	\$ 9,609
ESS Baltimore LLC	Nov-04	Feb-13	\$ 3,970	\$ 6,511

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 collateralize the loans could provide funds sufficient to reimburse the Company. The Company has recorded no liability in relation to these guarantees as of September 30, 2012, as the fair value of the guarantees was not material. The Company believes the risk of incurring a material 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 a result of these litigation matters, the Company has recorded a liability of \$1,800, which is included in other liabilities on the condensed consolidated balance sheets. The Company does not believe that it is reasonably likely that the loss related to these litigation matters will be in excess of the current amount accrued. As of September 30, 2012, 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.

## 16. SUBSEQUENT EVENTS

On October 26, 2012, the Company paid in full its line of credit with GE Capital Corporation. At the time of payoff, the loan balance was \$100,000. The line of credit matured October 31, 2012.

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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, 2011. 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, 2011 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 that we have used are appropriate and correct based on information available at the time 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; management fees on the properties we manage for joint venture partners, franchisees and unaffiliated third parties; and 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 and 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

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implement national, regional and local marketing programs, which we believe will attract more customers to our stores at a lower net cost.

- *Acquire self-storage properties from strategic partners and third parties.* Our acquisitions team continues to 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. We continue to see available acquisitions on which to bid and are seeing increasing prices. However, we remain a disciplined buyer and look for acquisitions that will strengthen our portfolio and increase stockholder value.
- *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 whose properties would enhance our portfolio in the event an opportunity arises to acquire the properties.

Recent U.S. and international market and economic conditions have been challenging, with slower growth. 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 September 30, 2012, we owned or had ownership interests in 720 operating self-storage properties. Of these properties, 416 are wholly-owned and 304 are held in joint ventures. In addition, we managed 190 properties for franchisees or third parties, bringing the total number of operating properties that we own and/or manage to 910. These properties are located in 34 states, Washington, D.C. and Puerto Rico. As of September 30, 2012, we owned and/or managed approximately 66.7 million square feet of space with approximately 610,000 units.

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. Our acquisitions and management business have given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.

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.

As of September 30, 2012, over 510,000 tenants were leasing storage units at our 910 operating properties that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as markets permit. 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 September 30, 2012, the median length of stay was approximately 13 months. These existing tenants generally receive rate increases at least annually, for which no direct correlation has been drawn to our vacancy trends. The average annual rent per square foot for our existing customers at these stabilized properties, net of discounts and bad debt, was \$13.81 at September 30, 2012, compared to \$13.50 at September 30, 2011. This compares to our average annual rent per square foot for new leases of \$14.43 at September 30, 2012, compared to \$13.94 at September 30, 2011. The average discounts during these periods were 4.4% and 5.9%, respectively.

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.

The following table sets forth additional information regarding the occupancy of our stabilized properties by state as of September 30, 2012 and 2011. The information as of September 30, 2011, is on a pro forma basis as though all the properties owned and/or managed at September 30, 2012, were under our control as of September 30, 2011.

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**Stabilized Property Data Based on Location**

Location	Number of Properties	Company	Pro forma	Company	Pro forma	Company	Pro forma
		Number of Units as of September 30, 2012 (1)	Number of Units as of September 30, 2011	Net Rentable Square Feet as of September 30, 2012 (2)	Net Rentable Square Feet as of September 30, 2011	Square Foot Occupancy % September 30, 2012	Square Foot Occupancy % September 30, 2011
<b>Wholly-owned properties</b>							
Alabama	4	1,970	1,958	233,643	233,454	85.2%	81.2%
Arizona	6	3,546	3,544	436,093	436,368	86.5%	86.7%
California	77	57,040	56,900	5,892,866	5,891,909	87.2%	85.7%
Colorado	11	5,265	5,257	660,845	661,320	92.5%	91.6%
Connecticut	4	2,647	2,661	257,818	257,848	89.3%	89.3%
Florida	37	24,618	24,748	2,636,997	2,639,001	88.5%	85.5%
Georgia	16	8,406	8,404	1,087,694	1,088,434	89.3%	85.5%
Hawaii	2	2,697	2,796	136,389	138,084	85.3%	86.4%
Illinois	12	8,044	8,033	872,081	872,544	92.2%	84.8%
Indiana	8	4,316	4,357	510,468	510,459	91.4%	88.0%
Kansas	1	504	506	50,340	50,340	91.6%	91.2%
Kentucky	4	2,150	2,152	254,115	253,991	93.1%	89.5%
Louisiana	2	1,414	1,413	150,215	150,165	93.1%	88.7%
Maryland	19	13,740	13,709	1,475,679	1,472,946	89.2%	89.9%
Massachusetts	31	18,458	18,461	1,907,072	1,908,923	91.1%	90.3%
Michigan	3	1,781	1,769	253,312	252,144	91.2%	89.7%
Missouri	6	3,159	3,158	375,337	374,987	90.7%	89.2%
Nevada	2	963	978	129,214	129,590	72.5%	68.6%
New Hampshire	2	1,006	1,007	125,773	125,473	88.3%	89.6%
New Jersey	38	30,118	30,262	2,902,269	2,901,664	89.3%	88.7%
New Mexico	2	1,193	1,185	162,864	162,704	89.6%	90.9%
New York	21	17,201	17,568	1,472,490	1,480,677	89.9%	89.0%
Ohio	16	8,849	9,008	1,126,519	1,129,589	90.1%	84.6%
Oregon	2	1,409	1,410	174,660	174,720	90.8%	92.0%
Pennsylvania	9	5,721	5,773	649,855	655,545	90.6%	90.3%
Rhode Island	2	1,181	1,188	130,836	131,091	89.3%	81.2%
South Carolina	5	2,700	2,702	327,675	328,558	89.1%	89.9%
Tennessee	6	2,918	2,930	408,725	409,034	87.9%	86.2%
Texas	25	16,101	16,074	1,895,579	1,894,074	88.6%	86.5%
Utah	8	3,845	3,846	485,306	484,358	91.8%	88.8%
Virginia	9	6,349	6,357	627,006	627,779	90.1%	89.4%
Washington	5	3,052	3,077	370,630	370,745	89.6%	84.4%
<b>Total Wholly-Owned Stabilized</b>	<b>395</b>	<b>262,361</b>	<b>263,191</b>	<b>28,180,365</b>	<b>28,198,518</b>	<b>89.1%</b>	<b>87.3%</b>

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Location	Number of Properties	Company	Pro forma	Company	Pro forma	Company	Pro forma
		Number of Units as of September 30, 2012 (1)	Number of Units as of September 30, 2011	Net Rentable Square Feet as of September 30, 2012 (2)	Net Rentable Square Feet as of September 30, 2011	Square Foot Occupancy % September 30, 2012	Square Foot Occupancy % September 30, 2011
<b>Joint-venture properties</b>							
Alabama	2	1,147	1,145	145,243	145,063	89.9%	89.6%
Arizona	9	5,657	5,641	649,031	649,406	88.2%	87.8%
California	78	56,513	56,389	5,848,023	5,848,467	91.1%	88.7%
Colorado	2	1,320	1,314	158,553	158,743	93.0%	89.1%
Connecticut	7	5,299	5,302	612,445	612,850	90.0%	89.1%
Delaware	1	588	585	71,680	71,680	91.6%	88.7%
Florida	22	17,575	17,937	1,777,090	1,803,551	88.3%	85.6%
Georgia	3	1,850	1,848	240,061	240,541	89.1%	84.0%
Illinois	6	4,324	4,290	436,086	436,151	92.3%	87.8%
Indiana	6	2,431	2,416	315,086	301,466	92.6%	89.5%
Kansas	2	840	838	108,820	108,905	88.7%	84.2%
Kentucky	4	2,289	2,279	270,013	269,545	92.4%	90.3%
Maryland	13	10,524	10,490	1,021,369	1,020,186	91.8%	90.5%
Massachusetts	13	6,873	6,880	776,952	778,852	89.3%	89.3%
Michigan	8	4,747	4,695	612,118	612,638	92.1%	90.5%
Missouri	1	532	530	61,275	61,275	92.6%	91.2%

Nevada	8	5,288	5,320	742,282	692,983	84.3%	83.7%
New Hampshire	3	1,309	1,311	137,024	137,474	90.0%	87.8%
New Jersey	18	13,978	13,978	1,482,399	1,484,031	90.1%	89.5%
New Mexico	8	4,002	3,994	451,114	451,312	83.4%	86.9%
New York	13	14,075	14,122	1,105,611	1,088,055	91.7%	91.1%
Ohio	10	4,710	4,698	655,184	655,864	91.9%	88.3%
Oregon	1	652	651	64,970	64,970	95.6%	94.3%
Pennsylvania	10	7,936	7,994	799,424	797,230	91.4%	91.6%
Tennessee	20	11,252	11,224	1,475,010	1,475,079	87.9%	87.9%
Texas	17	10,525	10,503	1,388,028	1,388,863	90.5%	87.8%
Virginia	15	10,477	10,481	1,124,111	1,123,586	90.3%	91.6%
Washington, DC	1	1,529	1,529	101,989	101,989	91.5%	92.0%
<b>Total Joint-Ventures Stabilized</b>	<b>301</b>	<b>208,242</b>	<b>208,384</b>	<b>22,630,991</b>	<b>22,580,755</b>	<b>90.1%</b>	<b>88.7%</b>
<b>Managed properties</b>							
Arizona	1	578	580	67,460	67,350	69.5%	55.7%
California	48	32,769	32,997	4,251,655	4,248,492	74.2%	72.8%
Colorado	4	1,522	1,518	167,193	167,290	95.0%	89.7%
Connecticut	1	484	496	61,480	61,120	81.8%	69.0%
Florida	17	9,015	9,048	1,102,983	1,102,634	77.9%	73.1%
Georgia	2	1,438	1,431	183,850	180,350	78.9%	77.2%
Hawaii	3	3,471	3,512	203,073	201,632	63.6%	59.9%
Illinois	6	3,592	3,593	355,168	355,091	88.1%	75.5%
Indiana	1	500	501	55,225	55,225	84.1%	73.1%
Kansas	1	467	468	110,320	110,460	81.7%	68.9%
Kentucky	1	530	522	66,100	66,100	93.4%	92.1%
Louisiana	1	1,013	1,012	134,940	134,995	75.0%	68.9%
Maryland	8	5,047	5,018	543,965	543,740	90.8%	89.2%
Massachusetts	5	5,216	5,246	459,147	459,237	69.6%	67.4%
Missouri	2	1,206	1,206	151,716	152,685	83.2%	87.0%
Nevada	2	1,562	1,566	170,575	170,375	75.9%	80.4%
New Jersey	7	4,126	4,140	428,475	425,635	71.3%	67.2%
New Mexico	3	1,644	1,642	185,195	185,195	83.3%	84.6%
North Carolina	8	5,149	5,237	577,133	577,005	81.8%	80.1%
Pennsylvania	16	7,320	7,371	902,760	868,515	84.6%	82.1%
South Carolina	1	605	616	88,430	88,130	89.9%	82.2%
Tennessee	3	1,503	1,496	206,465	205,225	87.5%	87.7%
Texas	8	4,215	4,129	551,289	546,014	86.4%	84.6%
Utah	1	795	795	136,005	136,005	76.0%	76.0%
Virginia	4	2,475	2,478	255,033	255,174	80.8%	77.4%
Washington	1	468	464	56,590	56,590	85.3%	78.9%
Washington, DC	2	1,263	1,263	112,459	112,459	90.4%	91.3%
Puerto Rico	4	2,799	2,799	288,903	288,903	78.5%	78.5%
<b>Total Managed Stabilized</b>	<b>161</b>	<b>100,772</b>	<b>101,144</b>	<b>11,873,587</b>	<b>11,821,626</b>	<b>78.7%</b>	<b>76.1%</b>
<b>Total Stabilized Properties</b>	<b>857</b>	<b>571,375</b>	<b>572,719</b>	<b>62,684,943</b>	<b>62,600,899</b>	<b>87.5%</b>	<b>85.7%</b>

(1) Represents unit count as of September 30, 2012, which may differ from September 30, 2011 unit count due to unit conversions or expansions.

(2) Represents net rentable square feet as of September 30, 2012, which may differ from September 30, 2011 net rentable square feet due to unit conversions or expansions.

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The following table sets forth additional information regarding the occupancy of our lease-up properties by state as of September 30, 2012 and 2011. The information as of September 30, 2011 is on a pro forma basis as though all the properties owned and/or managed at September 30, 2012 were under our control as of September 30, 2011.

### Lease-up Property Data Based on Location

Location	Number of Properties	Company	Pro forma	Company	Pro forma	Company	Pro forma
		Number of Units as of September 30, 2012 (1)	Number of Units as of September 30, 2011	Net Rentable Square Feet as of September 30, 2012 (2)	Net Rentable Square Feet as of September 30, 2011	Square Foot Occupancy % September 30, 2012	Square Foot Occupancy % September 30, 2011
<b>Wholly-owned properties</b>							
Arizona	1	633	636	71,355	71,355	54.9%	28.3%
California	8	5,462	4,873	590,923	529,113	75.5%	63.8%
Florida	6	5,087	5,232	519,600	520,020	76.1%	48.6%
Maryland	2	1,677	1,677	172,035	172,035	70.3%	42.4%
Massachusetts	1	690	615	73,020	74,025	71.3%	65.9%
New Jersey	1	613	579	66,167	66,867	88.4%	79.8%
Oregon	1	728	718	75,950	75,950	95.6%	76.5%
Tennessee	1	519	505	70,700	68,750	78.2%	68.5%
<b>Total Wholly-Owned in Lease up</b>	<b>21</b>	<b>15,409</b>	<b>14,835</b>	<b>1,639,750</b>	<b>1,578,115</b>	<b>75.6%</b>	<b>56.4%</b>
<b>Joint-venture properties</b>							
California	1	971	982	87,853	87,853	91.3%	71.1%
Illinois	2	1,305	1,307	131,470	131,418	87.0%	70.8%
<b>Total Joint-Ventures in Lease up</b>	<b>3</b>	<b>2,276</b>	<b>2,289</b>	<b>219,323</b>	<b>219,271</b>	<b>88.7%</b>	<b>70.9%</b>
<b>Managed properties</b>							
Colorado	2	1,087	1,101	121,044	121,531	88.6%	35.8%
Florida	7	4,592	4,669	458,423	458,263	70.8%	56.2%
Georgia	5	2,718	2,765	447,668	447,178	74.0%	61.2%
Illinois	2	1,237	1,294	91,785	91,995	86.5%	64.9%
Maryland	2	1,825	—	170,345	—	35.9%	0.0%
Massachusetts	2	1,572	1,577	137,262	137,207	45.8%	31.4%
New York	1	920	—	97,084	—	31.4%	0.0%
North Carolina	2	1,029	654	143,964	104,665	79.1%	79.6%
Pennsylvania	1	852	866	68,409	68,609	85.9%	73.6%
Rhode Island	1	969	977	91,075	91,075	44.1%	43.2%
South Carolina	1	721	734	76,385	76,435	87.4%	63.9%

Texas	2	1,552	1,594	171,163	172,447	49.6%	24.7%
Utah	1	434	—	67,230	—	70.1%	0.0%
<b>Total Managed in Lease up</b>	<b>29</b>	<b>19,508</b>	<b>16,231</b>	<b>2,141,837</b>	<b>1,769,405</b>	<b>65.8%</b>	<b>53.3%</b>
<b>Total Lease up Properties</b>	<b>53</b>	<b>37,193</b>	<b>33,355</b>	<b>4,000,910</b>	<b>3,566,791</b>	<b>71.1%</b>	<b>55.7%</b>

(1) Represents unit count as of September 30, 2012, which may differ from September 30, 2011 unit count due to unit conversions or expansions.

(2) Represents net rentable square feet as of September 30, 2012, which may differ from September 30, 2011 net rentable square feet due to unit conversions or expansions.

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## RESULTS OF OPERATIONS

### Comparison of the three and nine months ended September 30, 2012 and 2011

#### Overview

Results for the three and nine months ended September 30, 2012, include the operations of 720 properties (417 of which were consolidated and 303 of which were in joint ventures accounted for using the equity method) compared to the results for the three and nine months ended September 30, 2011, which included the operations of 676 properties (329 of which were consolidated and 347 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:

	For the Three Months Ended				For the Nine Months Ended			
	September 30,		\$ Change	% Change	September 30,		\$ Change	% Change
	2012	2011			2012	2011		
<b>Revenues:</b>								
Property rental	\$ 94,065	\$ 69,475	\$ 24,590	35.4%	\$ 249,193	\$ 195,265	\$ 53,928	27.6%
Tenant reinsurance	9,495	8,269	1,226	14.8%	27,060	22,889	4,171	18.2%
Management and franchise fees	6,231	6,353	(122)	(1.9)%	19,476	18,464	1,012	5.5%
<b>Total revenues</b>	<b>\$ 109,791</b>	<b>\$ 84,097</b>	<b>\$ 25,694</b>	<b>30.6%</b>	<b>\$ 295,729</b>	<b>\$ 236,618</b>	<b>\$ 59,111</b>	<b>25.0%</b>

**Property Rental** — The increases in property rental revenues for the three and nine months ended September 30, 2012 consist primarily of increases of \$18,961 and \$37,823, respectively, associated with acquisitions completed in 2012 and 2011. We completed 55 property acquisitions in 2011 and closed on 59 property acquisitions during the nine months ended September 30, 2012. In addition, increases of \$4,140 and \$11,590 resulted from increases in occupancy and rental rates to existing customers at our stabilized properties for the three and nine months ended September 30, 2012, respectively. Occupancy at our stabilized properties increased to 89.1% at September 30, 2012, as compared to 87.3% at September 30, 2011. Rental rates to new tenants increased by 3.5% over the same period in the prior year. Increases in occupancy at our lease-up properties increased our property rental revenue by \$1,489 and \$4,515, for the three and nine months ended September 30, 2012, respectively, when compared to the same periods in 2011.

**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 properties owned by third parties, franchisees and unconsolidated joint ventures. We increased the number of third party managed properties from 178 at September 30, 2011 to 190 at September 30, 2012.

**Tenant Reinsurance** — The increase in tenant reinsurance revenues for the nine months ended September 30, 2012 was primarily due to the increase of overall customer participation to 66.6% at September 30, 2012 compared to 64.1% at September 30, 2011. In addition, the number of properties that were owned and/or managed by us was 910 at September 30, 2012 compared to 854 at September 30, 2011.

#### Expenses

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30,		\$ Change	% Change	September 30,		\$ Change	% Change
	2012	2011			2012	2011		
<b>Expenses:</b>								
Property operations	\$ 30,115	\$ 24,270	\$ 5,845	24.1%	\$ 82,723	\$ 70,326	\$ 12,397	17.6%
Tenant reinsurance	1,379	1,596	(217)	(13.6)%	4,651	4,593	58	1.3%
Acquisition related costs	2,486	346	2,140	618.5%	3,564	2,165	1,399	64.6%
General and administrative	12,559	12,306	253	2.1%	37,744	36,396	1,348	3.7%
Depreciation and amortization	19,768	14,364	5,404	37.6%	52,918	42,041	10,877	25.9%

Total expenses	\$	66,307	\$	52,882	\$	13,425	25.4%	\$	181,600	\$	155,521	\$	26,079	16.8%
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**Property Operations** — The increase in property operations expense during the three and nine months ended September 30, 2012 consisted primarily of increases associated with acquisitions completed in 2011 and 2012. We completed 55 property acquisitions in 2011 and closed on 59 property acquisitions during the nine months ended September 30, 2012.

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**Tenant Reinsurance** — Tenant reinsurance expense represents the costs that are incurred to provide tenant reinsurance.

**Acquisition Related Costs** — Acquisition related costs relate to acquisition activities during the periods indicated. We acquired 53 properties during the three months ended September 30, 2012 compared to three properties during the same period in 2011. We acquired 59 properties during the nine months ended September 30, 2012, compared to 27 properties during the same period in 2011.

**General and Administrative** — General and administrative expenses primarily include all expenses not directly related to the properties, including corporate payroll, travel and professional fees. These expenses are recognized as incurred. The increase in general and administrative expenses for the nine months ended September 30, 2012 was primarily due to the overall cost associated with additional properties. We did not observe any material trends in specific payroll, travel or other expenses that contributed significantly to the increase in general and administrative expenses apart from the increase due to the management of additional properties. At September 30, 2012, we owned and/or managed 910 properties, compared to 854 properties at September 30, 2011.

**Depreciation and Amortization** — Depreciation and amortization expense increased as a result of the acquisition and development of new properties. During the nine months ended September 30, 2012, we completed the development of one property and acquired 59 properties. During the year ended December 31, 2011, we purchased 55 properties and completed the development of five properties.

**Other Revenues and Expenses**

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

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012	2011	\$ Change	% Change	2012	2011	\$ Change	% Change
<b>Other income and expenses:</b>								
Interest expense	\$ (18,423)	\$ (16,756)	\$ (1,667)	9.9%	\$ (52,348)	\$ (49,431)	\$ (2,917)	5.9%
Non-cash interest expense related to amortization of discount on exchangeable senior notes	—	(440)	440	(100.0)%	(444)	(1,308)	864	(66.1)%
Interest income	461	185	276	149.2%	1,184	556	628	112.9%
Interest income on note receivable from Preferred Operating Partnership unit holder	1,213	1,213	—	—	3,638	3,638	—	—
Equity in earnings of real estate ventures	2,854	1,873	981	52.4%	7,848	6,060	1,788	29.5%
Equity in earnings of real estate assets - gain on sale of real estate ventures and purchase of joint venture partner's interest	13,620	—	13,620	100.0%	19,049	—	19,049	100.0%
Income tax expense	(1,656)	62	(1,718)	(2,771.0)%	(4,240)	(603)	(3,637)	603.2%
Total other expense, net	\$ (1,931)	\$ (13,863)	\$ 11,932	(86.1)%	\$ (25,313)	\$ (41,088)	\$ 15,775	(38.4)%

**Interest Expense** — The increase in interest expense for the three and nine months ended September 30, 2012, when compared to the same period last year, was primarily the result of an increase in debt. At September 30, 2012 our total face value of debt was \$1,586,489 compared to total face value of debt of \$1,243,119 at September 30, 2011.

**Non-cash Interest Expense Related to Amortization of Discount on Exchangeable Senior Notes** — Represents the amortization of the discount on the Notes, which reflects the effective interest rate relative to the carrying amount of the liability. All of the outstanding Notes were surrendered for exchange in April 2012.

**Interest Income** — Interest income represents amounts earned on cash and cash equivalents deposited with financial institutions. The increase in interest income is primarily the result of a higher cash balance during the period ended September 30, 2012 when compared to the prior year.

**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.

**Equity in Earnings of Real Estate Ventures** — The increase in equity in earnings of real estate ventures for the three and nine months ended September 30, 2012 was due primarily to increased revenues at our joint ventures as a result of increases in occupancy and rental rates to new and existing customers. Additionally, property expenses at our joint ventures were lower, primarily due to reduced utility, credit card, and repair and maintenance costs.

**Equity in Earnings of Real Estate Ventures — Gain on Sale of Real Estate Assets and Purchase of Joint Venture Partner's Interest** — In February 2012, a joint venture in which we held a 40% equity interest sold its only self-storage property. As a result of the sale, the joint venture was dissolved, and we received cash proceeds which resulted in a gain of \$5,550.

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On July 2, 2012, we acquired Prudential Real Estate Investors' ("PREI®") 94.9% interest in the ESS PRISA III LLC joint venture ("PRISA III"). This transaction resulted in a gain of \$13,499, which represents the increase in fair value of our 5.1% interest in PRISA III from the formation of the joint venture to the acquisition date.

There was no significant equity in earnings on gains from the sale of real estate ventures or from purchase of a joint venture partner's interest for the three or nine months ended September 30, 2011.

**Income Tax Expense** — For the three and nine months ended September 30, 2012, the increase in income tax expense primarily related to increased revenues at 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:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012	2011	\$ Change	% Change	2012	2011	\$ Change	% Change
<b>Net income allocated to noncontrolling interests:</b>								
Net income allocated to Preferred Operating Partnership noncontrolling interests	\$ (1,805)	\$ (1,598)	\$ (207)	13.0%	\$ (5,108)	\$ (4,682)	\$ (426)	9.1%
Net income allocated to Operating Partnership and other noncontrolling interests	(1,142)	(493)	(649)	131.6%	(2,475)	(1,156)	(1,319)	114.1%
Total income allocated to noncontrolling interests:	\$ (2,947)	\$ (2,091)	\$ (856)	40.9%	\$ (7,583)	\$ (5,838)	\$ (1,745)	29.9%

**Net Income Allocated to Preferred Operating Partnership Noncontrolling Interests** — Income allocated to the Preferred OP units as of September 30, 2012 and 2011 equals the fixed distribution paid to the Preferred OP unit holder, plus approximately 0.9% of the remaining net income allocated after the adjustment for the fixed distribution paid.

**Net Income Allocated to Operating Partnership and Other Noncontrolling Interests** — Income allocated to the Operating Partnership as of September 30, 2012 and 2011 represents approximately 2.8% and 3.1%, respectively, of net income after the allocation of the fixed distribution paid to the Preferred OP unit holder. Income allocated to other noncontrolling interests represents the income allocated to partners in consolidated joint ventures. The increase in net income allocated to operating partnership and other noncontrolling interests for the three and nine months ended September 30, 2012, when compared to the same period last year, was primarily the result of an increase in net income.

### FUNDS FROM OPERATIONS

Funds from Operations ("FFO") provides relevant and meaningful information about our operating performance that is necessary, along with net income 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 and impairment write downs of depreciable real estate assets, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that to further understand our performance, FFO should be considered along with the reported net income 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 as an indication of our performance, as an alternative to net cash flow from operating activities, as a measure of liquidity, or an indicator of our ability to make cash distributions.

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The following table sets forth the calculation of FFO for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Net income attributable to common stockholders</b>	\$ 38,606	\$ 15,261	\$ 81,233	\$ 34,171
<b>Adjustments:</b>				
Real estate depreciation	16,886	12,958	46,380	38,000
Amortization of intangibles	2,090	651	4,130	1,371
Joint venture real estate depreciation and amortization	1,741	1,979	5,343	6,111

Joint venture (gain) loss on sale of properties and purchase of partner's interest	(13,620)	512	(19,049)	182
Distributions paid on Preferred Operating Partnership units	(1,438)	(1,438)	(4,313)	(4,313)
Income allocated to Operating Partnership noncontrolling interests	2,938	2,092	7,563	5,846
Funds from operations	<u>\$ 47,203</u>	<u>\$ 32,015</u>	<u>\$ 121,287</u>	<u>\$ 81,368</u>

## SAME-STORE STABILIZED PROPERTY RESULTS

We consider our same-store stabilized portfolio to consist of only those properties that 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.

	For the Three Months Ended September 30,		Percent Change	For the Nine Months Ended September 30,		Percent Change
	2012	2011		2012	2011	
Same-store rental and tenant reinsurance revenues	\$ 71,091	\$ 66,589	6.8%	\$ 206,060	\$ 193,300	6.6%
Same-store operating and tenant reinsurance expenses	21,269	21,871	(2.8)%	64,716	65,745	(1.6)%
Same-store net operating income	\$ 49,822	\$ 44,718	11.4%	\$ 141,344	\$ 127,555	10.8%
Non same-store rental and tenant reinsurance revenues	\$ 32,469	\$ 11,155	191.1%	\$ 70,193	\$ 24,854	182.4%
Non same-store operating and tenant reinsurance expenses	\$ 10,225	\$ 3,995	155.9%	\$ 22,658	\$ 9,174	147.0%
Total rental and tenant reinsurance revenues	\$ 103,560	\$ 77,744	33.2%	\$ 276,253	\$ 218,154	26.6%
Total operating and tenant reinsurance expenses	\$ 31,494	\$ 25,866	21.8%	\$ 87,374	\$ 74,919	16.6%
Same-store square foot occupancy as of quarter end	89.8%	88.0%		89.8%	88.0%	
Properties included in same-store	282	282		282	282	

The increases in same-store rental revenues for the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, were due primarily to an increase in occupancy of 1.8%; decreases of 14.9% and 11.3%, respectively, in discounts; and average increases of 4.4% and 4.4%, respectively, in incoming rates to new tenants. The decreases in same-store operating expenses were primarily due to reduced repairs and maintenance, utility and office expenses.

## CASH FLOWS

Cash flows provided by operating activities were \$152,961 and \$100,657, respectively, for the nine months ended September 30, 2012 and 2011. The increase compared to the same period of the prior year primarily relates to a \$48,807 increase in net income, an increase in depreciation and amortization of \$10,877 and a decrease in receivables from related parties and affiliated joint ventures of \$7,888. These items were offset by a non-cash gain on the purchase of a joint venture partner's interest of \$13,499, related to the PRISA III acquisition.

Cash used in investing activities was \$375,069 and \$169,188, respectively, for the nine months ended September 30, 2012 and 2011. The increase relates primarily to an increase of \$257,213 in the amount of cash used to acquire real estate assets during 2012 compared to 2011. This was offset by reductions of cash used to purchase notes receivable of \$43,125.

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Cash provided by financing activities for the nine months ended September 30, 2012 was \$239,232 compared to \$55,676 for the nine months ended September 30, 2011. The change in cash provided by financing activities related to an increase of \$114,340 in proceeds from the sale of common stock and increases in proceeds from notes payable and lines of credit of \$270,413 over the same period of the prior year. These were offset by an increase in cash used to repurchase exchangeable senior notes of \$87,663, an increase in cash used for principal payments on notes payable and lines of credit of \$83,643 and an increase in dividends paid on common stock of \$21,908.

## LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2012, we had \$43,608 available in cash and cash equivalents. We intend to use this cash to pay for future acquisitions, to repay debt 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 2011 and the first nine months of 2012, 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.

The following table sets forth information on our lines of credit for the periods indicated:

Line of Credit	As of September 30, 2012		Interest Rate	Origination Date	Maturity	Basis Rate	Notes
	Amount Drawn	Capacity					
Credit Line 1	\$ 100,000	\$ 100,000	1.2%	10/19/2007	10/31/2012	LIBOR plus 1.00% - 2.10%	(5)
Credit Line 2	30,000	75,000	2.4%	2/13/2009	2/13/2014	LIBOR plus 2.15%	(1),(4),(5)
Credit Line 3	45,000	75,000	2.4%	6/4/2010	5/31/2013	LIBOR plus 2.20%	(2),(4),(5)
Credit Line 4	35,000	40,000	2.4%	11/16/2010	11/16/2013	LIBOR plus 2.20%	(3),(4),(5)
Credit Line 5	30,000	50,000	2.4%	4/29/2011	5/1/2014	LIBOR plus 2.15%	(3),(4),(5)
	<u>\$ 240,000</u>	<u>\$ 340,000</u>					

- (1) One year extension available
- (2) One two-year extension available
- (3) Two one-year extensions available
- (4) Guaranteed by the Company
- (5) Secured by mortgages on certain real estate assets

As of September 30, 2012, we had \$1,586,489 face value of debt, resulting in a debt to total capitalization ratio of 30.6%. As of September 30, 2012, the ratio of total fixed-rate debt and other instruments to total debt was 74.2% (including \$631,376 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 September 30, 2012 was 4.2%. 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 September 30, 2012.

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 lines of credit. In addition, we are pursuing additional term loans secured by unencumbered properties.

Our liquidity needs consist primarily of cash distributions to stockholders, property acquisitions, principal payments under our borrowings and non-recurring capital expenditures. We may from time to time seek to repurchase shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases, 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.

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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.

**CONTRACTUAL OBLIGATIONS**

The following table sets forth information on payments due by period as of September 30, 2012:

	Payments due by Period:	
	Less Than	After



	Total	1 Year	1-3 Years	3-5 Years	5 Years
Operating leases	\$ 67,987	\$ 7,350	\$ 13,027	\$ 7,128	\$ 40,482
Notes payable, notes payable to trusts, and lines of credit					
Interest	371,989	64,289	104,793	62,448	140,459
Principal	1,586,489	221,254	470,570	413,708	480,957
Total contractual obligations	\$ 2,026,465	\$ 292,893	\$ 588,390	\$ 483,284	\$ 661,898

The operating leases above include minimum future lease payments on ground leases for 17 of our operating properties as well as leases of our corporate offices. Two ground leases include additional contingent rental payments based on the level of revenue achieved at the property.

At September 30, 2012, the weighted-average interest rate for all fixed-rate loans was 4.9%, and the weighted-average interest rate for all variable-rate loans was 2.1%.

## 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 that 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;

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- 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 we 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.

## 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 at 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 September 30, 2012, we had approximately \$1.6 billion in total debt, of which approximately \$408.8 million was subject to variable interest rates (excluding debt with interest rate swaps). If LIBOR were to change by 100 basis points, the effect on interest expense on the variable-rate debt (excluding variable-rate debt with interest rate floors) would affect future earnings and cash flows by approximately \$3.7 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 fixed-rate assets and liabilities are as follows:

	September 30, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Note receivable from Preferred Operating Partnership unit holder	\$ 108,925	\$ 100,000	\$ 104,049	\$ 100,000
Fixed-rate notes payable and notes payable to trusts	\$ 1,264,295	\$ 1,177,736	\$ 1,008,039	\$ 938,681
Exchangeable senior notes	\$ —	\$ —	\$ 92,265	\$ 87,663

The fair value of our note receivable from Preferred Operating Partnership unit holder is based on the discounted estimated future cash flows of the note (categorized within Level 3 of the fair value hierarchy); the discount rate used approximates the current market rate for loans with similar maturities and credit quality. The fair values of our fixed-rate notes payable, notes payable to trusts and exchangeable senior notes were estimated using the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with

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similar maturities and credit quality. Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement of such fair value amounts may not be possible and may not be a prudent management decision.

## 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, or the Exchange Act, 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 2011 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. MINE SAFETY DISCLOSURES

Not Applicable.

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### ITEM 5. OTHER INFORMATION

None.

### 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 September 30, 2012 are formatted in XBRL (eXtensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations, (3) the Condensed Consolidated Statements of Comprehensive Income (4) the Condensed Consolidated Statement of Equity, (5) the Condensed Consolidated Statements of Cash Flows and (6) notes to these financial statements. |

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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, as amended, 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. Signed originals of these certifications have been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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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.  
*Registrant*

Date: November 5, 2012

/s/ Spencer F. Kirk  
Spencer F. Kirk

*Chief Executive Officer*  
*(Principal Executive Officer)*

Date: November 5, 2012

/s/ P. Scott Stubbs

P. Scott Stubbs

*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

## CERTIFICATION

I, Spencer F. Kirk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Extra Space Storage Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2012

By: /s/ Spencer F. Kirk  
Name: Spencer F. Kirk  
Title: Chief Executive Officer

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## CERTIFICATION

I, P. Scott Stubbs, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Extra Space Storage Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2012

By: /s/ P. Scott Stubbs

Name: P. Scott Stubbs

Title: Executive Vice President and Chief Financial Officer

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

The undersigned, the Chief Executive Officer of Extra Space Storage Inc. (the "Company"), hereby certifies to his knowledge on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the "Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Spencer F. Kirk  
Name: Spencer F. Kirk  
Title: Chief Executive Officer  
Date: November 5, 2012

The undersigned, the Chief Financial Officer of Extra Space Storage Inc. (the "Company"), hereby certifies to his knowledge on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the "Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ P. Scott Stubbs  
Name: P. Scott Stubbs  
Title: Executive Vice President and Chief Financial Officer  
Date: November 5, 2012

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