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Item 8. Financial Statements and Supplementary Data

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

o **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 and zip code)

Registrant's telephone number, including area code: **(801) 562-5556**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ☒

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ☒

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 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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the common stock held by non-affiliates of the registrant was $975,315,000 based upon the closing price on the New York Stock Exchange on June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter. This calculation does not reflect a determination that persons whose shares are excluded from the computation are affiliates for any other purpose.

The number of shares outstanding of the registrant's common stock, par value $0.01 per share, as of February 15, 2008 was 66,415,242.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement to be issued in connection with the registrant's annual stockholders' meeting to be held in 2008 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Statements Regarding 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 estimates 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 I. Item 1A. Risk Factors" below. Such factors include, but are not limited to:

- *changes in general economic conditions and in the markets in which we operate;*
- *the effect of competition from new self-storage facilities or other storage alternatives, which would cause rents and occupancy rates to decline;*
- *potential liability for uninsured losses and environmental contamination;*
- *difficulties in our ability to evaluate, finance and integrate acquired and developed properties into our existing operations and to lease up those properties, which could adversely affect our profitability;*
- *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, which could increase our expenses and reduce our cash available for distribution;*
- *recent disruptions in credit and financial markets and resulting difficulties in raising capital at reasonable rates, which could impede our ability to grow;*
- *delays in the development and construction process, which could adversely affect our profitability; and*
- *economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan.*

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our securities.

We disclaim any duty or obligation to update or revise any forward-looking statements set forth in this Annual Report on Form 10-K to reflect new information, future events or otherwise.

PART I

Item 1.   Business

General

Extra Space Storage Inc. ("we," "our," "us" or 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, acquire, develop and redevelop professionally managed self-storage facilities. We closed our initial public offering ("IPO") on August 17, 2004. Our common stock is traded on the New York Stock Exchange under the symbol "EXR."

We were formed to continue the business of Extra Space Storage LLC and its subsidiaries (the "Predecessor"), which had engaged in the self-storage business since 1977. These companies were reorganized after the consummation of our IPO and various formation transactions. As of December 31, 2007, we held ownership interests in 606 properties located in 33 states and Washington, D.C. with an aggregate of approximately 44 million square feet of net rentable space and approximately 300,000 customers. Of these 606 properties, 260 are wholly-owned, and 346 are owned in joint-venture partnerships. An additional 45 properties are owned by franchisees or third parties and operated by us in exchange for a management fee, bringing total properties which we own and/or manage to 651.

We operate in two distinct segments: (1) property management, acquisition and development and (2) rental operations. Our 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.

Substantially all of our business is conducted through Extra Space Storage LP (the "Operating Partnership"), and through our wholly-owned Massachusetts business trust subsidiaries. Our primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). To the extent we continue to qualify as a REIT, we will not be subject to tax, with certain exceptions, on our net taxable income that is distributed to our stockholders.

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission (the "SEC"). You may obtain copies of these documents by visiting the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at http://www.sec.gov. In addition, as soon as reasonably practicable after such materials are furnished to the SEC, we make copies of these documents available to the public free of charge through our website at www.extraspace.com, or by contacting our Secretary at our principal offices, which are located at 2795 East Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121, telephone number (801) 562-5556.

Management

Members of our executive management team have significant experience in all aspects of the self-storage industry, and have an average of more than fourteen years of industry experience. The senior management team has collectively acquired and/or developed more than 700 properties during the past 25 years for the Company, the Predecessor and other entities. Kenneth M. Woolley, Chairman and Chief Executive Officer, and Richard S. Tanner, Senior Vice President Development, have worked in the self-storage industry since 1977 and led some of the earliest self-storage facility development projects in the United States.

The remainder of our executive management team and their years of industry experience are as follows: Spencer F. Kirk, President, 7 years; Kent W. Christensen, Executive Vice President and Chief Financial Officer, 10 years; Charles L. Allen, Executive Vice President and Chief Legal Officer, 10 years; and Karl Haas, Executive Vice President and Chief Operating Officer, 20 years.

Members of the executive management team have guided the Company through substantial growth, developing and acquiring over $3.2 billion in assets since 1996. This growth has been funded through equity offerings and more than $2.0 billion in private equity capital since 1998. This private equity capital has come primarily from sophisticated, high net-worth individuals and institutional investors such as affiliates of Prudential Financial, Inc. and Fidelity Investments.

Our executive management and board of directors have a significant ownership position in the Company with executive officers and directors owning 6,107,401 shares or 9.2% of our outstanding common stock as of February 15, 2008.

Industry & Competition

Self-storage facilities refers to properties that offer do-it-yourself, month-to-month storage space rental for personal or business use. Self-storage offers a cost-effective and flexible storage alternative. Tenants rent fully enclosed spaces that can vary in size according to their specific needs and to which they have unlimited, exclusive access. Tenants have responsibility for moving their items into and out of their units. Self-storage unit sizes typically range from five feet by five feet to 20 feet by 20 feet, with an interior height of eight to 12 feet. Properties generally have on-site managers who supervise and run the day-to-day operations, providing tenants with assistance as needed.

Self-storage provides a convenient way for individuals and businesses to store their possessions, due to life-changes, or simply because of a need for storage space. The mix of residential tenants using a self-storage property is determined by a property's local demographics and often includes people who are looking to downsize their living space or others who are not yet settled into a permanent residence.

Items that residential tenants place in self-storage properties range from cars, boats and recreational vehicles, to furniture, household items and appliances. Commercial tenants tend to include small business owners who require easy and frequent access to their goods, records, extra inventory or storage for seasonal goods.

Our research has shown that tenants choose a self-storage property based primarily on the convenience of the site to their home or business, making high-density, high-traffic population centers ideal locations for a self-storage property. A property's perceived security and the general professionalism of the site managers and staff are also contributing factors to a site's ability to successfully secure rentals. Although most self-storage properties are leased to tenants on a month-to-month basis, tenants tend to continue their leases for extended periods of time.

There are seasonal fluctuations in occupancy rates for self-storage properties. Based on our experience, generally, there is increased leasing activity at self-storage properties during the summer months due to the higher number of people who relocate during this period. The highest level of occupancy is typically at the end of July, while the lowest level of occupancy is seen in late February and early March.

Since inception in the early 1970's, the self-storage industry has experienced significant growth. In the past ten years, there has been even greater growth. According to the 2008 Self-Storage Almanac (the "Almanac"), in 1997 there were only 25,180 self-storage properties in the United States, with an average occupancy rate of 88.5% of net rentable square feet, compared to 44,974 self-storage properties in 2007 with an average occupancy rate of 81.4% of net rentable square feet. As population densities have increased in the United States, there has been an increase in self-storage awareness and corresponding development, which we expect will continue in the future.

Increased competition has affected our business and has led to both pricing and discount pressure. This has limited our ability to increase revenues in many markets in which we operate. Many markets have been able to absorb the increase in self-storage development due to superior demographics and density. However, select markets have not been able to absorb the new facilities and have not performed as well.

We have encountered competition when we have sought to acquire properties, especially for brokered portfolios. Aggressive bidding practices have been commonplace between both public and private entities, and this competition will continue to be a challenge for the Company's growth strategy.

Increased development within the self-storage industry has also led to an increased emphasis on site location, property design, innovation and functionality. We strive to have a creative and flexible approach to our development projects and we are open to a broad array of opportunities because of this flexibility. This is especially true for new sites slated for high-density population centers. We can offer unique and attractive architecture to accommodate the requirements and tastes of local planning and zoning boards, and to distinguish a facility from other offerings in the market. Due to the attractive architecture of many of our development properties, we have been able to eliminate a typical barrier of entry for most self-storage developers in areas usually reserved for more traditional retail and commercial users.

The industry is also characterized by fragmented ownership. According to the 2008 Almanac, the top ten self-storage companies in the United States owned approximately 11.6% of total U.S. self-storage properties, and the top 50 self-storage companies owned approximately 15.3% of the total U.S. properties. We believe this fragmentation will contribute to continued consolidation at some level in the future. We also believe that we are well positioned to be able to compete for acquisitions given our enhanced ability to access capital as a public company and our historical reputation for closing deals.

After our acquisition of the Storage USA properties on July 14, 2005, we became the second largest self-storage operator in the United States. We are now one of four public self-storage REITS along with Public Storage Inc. (NYSE: PSA), Sovran Self-Storage, Inc. (NYSE: SSS), and U-Store-It Inc. (NYSE: YSI).

Growth and Investment Strategies

Our primary business objectives are to maximize cash flow available for distribution to our stockholders and to achieve sustainable long-term growth in cash flow per share in order to maximize long-term stockholder value. We continue to evaluate a range of growth initiatives and opportunities, including the following:

- ***Maximize the performance of properties through strategic, efficient and proactive management.*** We plan to pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team will seek 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 us greater ability than the majority of our competitors to implement national, regional and local marketing programs, which we believe will attract more customers to our stores at a lower net cost.

- ***Focus on the acquisition of self-storage properties from strategic partners and third parties.*** Our acquisitions team will continue to pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. Our July 2005 acquisition of Storage USA has bolstered our reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close non-brokered, private deals. In addition, our status as an UPREIT enables flexibility when structuring deals.

- ***Develop new self-storage properties.*** We currently have joint venture and wholly-owned development properties and will continue to develop new self-storage properties in our core markets. Our development pipeline through 2009 includes 26 projects. The majority of the projects will be developed on a wholly-owned basis by the Company.

- ***Expand our management business.*** We see our management business as a future acquisition pipeline. We expect to pursue strategic relationships with owners that should strengthen our acquisition pipeline through agreements which give us first right of refusal to purchase the managed property in the event of a potential sale. Nineteen of our 39 2007 acquisitions came from this channel.

Financing of Our Growth Strategies

- ***Acquisition and Development Financing***

  We currently have a $100.0 million revolving line of credit (the "credit line") that is collateralized by certain of our self-storage properties. As of December 31, 2007, the credit line had $100.0 million of available capacity based on the assets collateralizing the credit line. We expect to maintain a flexible approach in financing new property acquisitions. We plan to finance future acquisitions through a combination of borrowings under the credit line, traditional secured mortgage financing, additional equity offerings and additional joint venture partnerships.

- ***Development Joint Venture Financing***

  We own 326 of our 591 stabilized properties and 20 of our 60 lease-up properties through joint ventures with third parties, including affiliates of Prudential Financial, Inc. In each joint venture, we generally manage the day-to-day operations of the underlying properties and have the right to participate in major decisions relating to sales of properties or financings by the applicable joint venture. Our joint venture partners typically provide most of the equity capital required for the operation of the respective business. Under the operating agreements for the joint ventures, we typically maintain the right to receive between 17.0% and 50.0% of the available cash flow from operations after our joint venture partners have received a predetermined return, and between 17.0% and 50.0% of the available cash flow from capital transactions after our joint venture partners have received a return of their capital plus such predetermined return. Most joint venture agreements include buy-sell rights, as well as rights of first refusal in connection with the sale of properties by the joint venture.

- ***Disposition of Properties***

  We will continue to review our portfolio for properties or groups of properties that are not strategically located and determine whether to dispose of these properties to fund other growth.

Regulation

Generally, self-storage properties are subject to various laws, ordinances and regulations, including regulations relating to lien sale rights and procedures. Changes in any of these laws or regulations, as well as changes in laws, such as the Comprehensive Environmental Response and Compensation Liability Act ("CERCLA"), which increase the potential liability for environmental conditions or circumstances existing or created by tenants or others on properties, or laws affecting development, construction, operation, upkeep, safety and taxation may result in significant unanticipated expenditures, loss of self-storage sites or other impairments to operations, which would adversely affect our financial position, results of operations or cash flows.

Under the Americans with Disabilities Act of 1990 (the "ADA"), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws also exist that may require modifications to the properties, or restrict further renovations thereof, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, thereby requiring substantial capital expenditures. To the extent our properties are not in compliance, we are likely to incur additional costs to comply with the ADA.

Insurance activities are subject to state insurance laws and regulations as determined by the particular insurance commissioner for each state in accordance with the McCarran-Ferguson Act, and are subject to the Gramm-Leach-Bliley Act and the privacy regulations promulgated by the Federal Trade Commission pursuant thereto.

Property management activities are often subject to state real estate brokerage laws and regulations as determined by the particular real estate commission for each state.

Changes in any of the laws governing our conduct could have an adverse impact on our ability to conduct our business or could materially affect our financial position, results of operations or cash flows.

Employees

As of February 15, 2008, we had 1,853 employees and believe our relationship with our employees to be good. Our employees are not represented by a collective bargaining agreement.

Item 1A. Risk Factors

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information contained in this Annual Report before trading in our securities. If any of the events set forth in the following risks actually occur, our business, operating results, prospects and financial condition could be harmed.

Our performance is subject to risks associated with real estate investments. We are a real estate company that derives our income from operation of our properties. There are a number of factors that may adversely affect the income that our properties generate, including the following:

Risks Related to Our Properties and Operations

If we are unable to promptly re-let our units or if the rates upon such re-letting are significantly lower than expected, then our business and results of operations would be adversely affected.

Virtually all of our leases are on a month-to-month basis. Any delay in re-letting units as vacancies arise would reduce our revenues and harm our operating results. In addition, lower than expected rental rates upon re-letting could impede our growth.

We face increasing competition for the acquisition of self-storage properties and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We compete with many other entities engaged in real estate investment activities for acquisitions of self-storage properties and other assets, including national, regional and local operators and developers of self-storage properties. These competitors may drive up the price we must pay for self-storage properties or other assets we seek to acquire or may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single properties in comparison with portfolio acquisitions. If we pay higher prices for self-storage properties or other assets, our profitability will be reduced.

Our investments in development and redevelopment projects may not yield anticipated returns, which would harm our operating results and reduce the amount of funds available for distributions.

A key component of our growth strategy is exploring new asset development and redevelopment opportunities through strategic joint ventures and on a wholly-owned basis. To the extent that we engage in these development and redevelopment activities, they will be subject to the following risks normally associated with these projects:

- we may be unable to obtain financing for these projects on favorable terms or at all;
- we may not complete development projects on schedule or within budgeted amounts;
- we may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental permits and authorizations; and
- occupancy rates and rents at newly developed or redeveloped properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investment not being profitable.

In deciding whether to develop or redevelop a particular property, we make certain assumptions regarding the expected future performance of that property. We may underestimate the costs necessary to bring the property up to the standards established for its intended market position or may be unable to increase occupancy at a newly acquired property as quickly as expected or at all. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these development or redevelopment projects and harm our operating results, liquidity and financial condition, which could result in a decline in the value of our securities.

We may in the future develop self-storage properties in geographic regions where we do not currently have a significant presence and where we do not possess the same level of familiarity with development, which could adversely affect our ability to develop such properties successfully or at all or to achieve expected performance.

We rely on the investments of our joint venture partners for funding our development and redevelopment projects. If our reputation in the self-storage industry changes or the number of investors considering us an attractive strategic partner is otherwise reduced, our ability to develop or redevelop properties could be affected, which would limit our growth.

We may not be successful in identifying and consummating suitable acquisitions that meet our criteria, which may impede our growth and negatively affect our stock price.

Our ability to expand through acquisitions is integral to our business strategy and requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions will slow our growth, which could in turn adversely affect our stock price.

Our ability to acquire properties on favorable terms and successfully integrate and operate them may be constrained by the following significant risks:

- competition from local investors and other real estate investors with significant capital, including other publicly-traded REITs and institutional investment funds;
- competition from other potential acquirers may significantly increase the purchase price which could reduce our profitability;
- the inability to achieve satisfactory completion of due diligence investigations and other customary closing conditions;
- failure to finance an acquisition on favorable terms or at all;
- we may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties; and
- we may acquire properties subject to unknown liabilities without any recourse, or with only limited recourse, such as liabilities for clean-up of undisclosed environmental contamination, claims by persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

In addition, strategic decisions by us, such as acquisitions, may adversely affect the price of our securities.

We may not be successful in integrating and operating acquired properties.

We expect to make future acquisitions of self-storage properties. If we acquire any self-storage properties, we will be required to integrate them into our existing portfolio. The acquired properties may turn out to be less compatible with our growth strategy than originally anticipated, may cause disruptions in our operations or may divert management's attention away from day-to-day operations, which could impair our results of operations as a whole.

We depend upon our on-site personnel to maximize tenant satisfaction at each of our properties, and any difficulties we encounter in hiring, training and maintaining skilled field personnel may harm our operating performance.

We had 1,578 field personnel as of February 15, 2008 in the management and operation of our properties. The general professionalism of our site managers and staff are contributing factors to a site's ability to successfully secure rentals and retain tenants. We also rely upon our field personnel to maintain clean and secure self-storage properties. If we are unable to successfully recruit, train and retain qualified field personnel, the quality of service we strive to provide at our properties could be adversely affected which could lead to decreased occupancy levels and reduced operating performance.

Other self-storage operators may employ STORE or a technology similar to STORE, which could enhance their ability to compete with us.

We rely on STORE, a state-of-the-art, proprietary, web-based tracking and yield management technology, to support all aspects of our business operations and to help us implement new development and acquisition opportunities and strategies. If other self-storage companies obtain a license to use STORE, or employ or develop a technology similar to STORE, their ability to compete with us could be enhanced.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow.

We maintain comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by our lenders), extended coverage and rental loss insurance with respect to our properties with policy specifications, limits and deductibles customarily carried for similar properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, hurricanes, tornadoes, riots, acts of war or terrorism. Should an uninsured loss occur, we could lose both our investment in and anticipated profits and cash flow from a property. In addition, if any such loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. As a result, our operating results may be adversely affected.

Increases in taxes and regulatory compliance costs may reduce our income.

Costs resulting from changes in real estate tax laws generally are not passed through to tenants directly and will affect us. Increases in income, property or other taxes generally are not passed through to tenants under leases and may reduce our net income, funds from operations ("FFO"), cash flow, financial condition, ability to pay or refinance our debt obligations, ability to make distributions to stockholders, and the trading price of our securities. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures, which could similarly adversely affect our business and results of operations.

We do not always obtain independent appraisals of our properties, and thus the consideration paid for these properties may exceed the value that may be indicated by third-party appraisals.

We do not always obtain third-party appraisals in connection with our acquisition of properties and the consideration being paid by us in exchange for those properties may exceed the value as determined by third-party appraisals. In such cases, the terms of any agreements and the valuation methods used to determine the value of the properties were determined by our senior management team.

Environmental compliance costs and liabilities associated with operating our properties may affect our results of operations.

Under various U.S. federal, state and local laws, ordinances and regulations, owners and operators of real estate may be liable for the costs of investigating and remediating certain hazardous substances or other regulated materials on or in such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such substances or materials. The presence of such substances or materials, or the failure to properly remediate such substances, may adversely affect the owner's or operator's ability to lease, sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous substances or other regulated materials may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials.

Certain environmental laws also impose liability, without regard to knowledge or fault, for removal or remediation of hazardous substances or other regulated materials upon owners and operators of contaminated property even after they no longer own or operate the property. Moreover, the past or present owner or operator from which a release emanates could be liable for any personal injuries or property damages that may result from such releases, as well as any damages to natural resources that may arise from such releases.

Certain environmental laws impose compliance obligations on owners and operators of real property with respect to the management of hazardous materials and other regulated substances. For example, environmental laws govern the management of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions.

No assurances can be given that existing environmental studies with respect to any of our properties reveal all environmental liabilities, that any prior owner or operator of our properties did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more of our properties. There also exists the risk that material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future. Finally, future laws, ordinances or regulations and future interpretations of existing laws, ordinances or regulations may impose additional material environmental liability.

Our investments available-for-sale portfolio is invested in auction rate securities or ARS. Failures in these auctions affect our liquidity, while deterioration in credit ratings of issuers and/or third parties insuring such investments may require us to adjust the carrying value of our investment through an impairment charge to earnings.

At December 31, 2007, we had $24.5 million par value invested in auction rate securities. If an auction fails for amounts we have invested in ARS, our investment will not be liquid. At December 31, 2007, auctions for all of our ARS had failed. As a result, we will not be able to access such funds until a future auction on these investments is successful or these securities are redeemed. We cannot assure you that an auction with respect to these securities will ever succeed or that these securities will be redeemed, in which case, we would be required to hold the ARS until maturity. These investments are non mortgage-backed and are insured for their principal and interest in the case of default. Related to these failed auctions, we recorded a $1.2 million other-than-temporary impairment charge and a $1.4 million temporary impairment charge to reduce the value of our investment in ARS to an estimated fair value of approximately $21.8 million. To the extent that the auctions continue to fail and/or the credit rating of the issuers or the third parties insuring such investments deteriorates, we may be required to record further impairment charges with respect to these securities.

Adverse economic or other conditions in the markets in which we do business could negatively affect our occupancy levels and rental rates and therefore our operating results.

Our operating results are dependent upon our ability to maximize occupancy levels and rental rates in our self-storage properties. Adverse economic or other conditions in the markets in which we operate may lower our occupancy levels and limit our ability to increase rents or require us to offer rental discounts. If our properties fail to generate revenues sufficient to meet our cash requirements, including operating and other expenses, debt service and capital expenditures, our net income, FFO, cash flow, financial condition, ability to make distributions to stockholders and the trading price of our securities could be adversely affected. The following factors, among others, may adversely affect the operating performance of our properties:

- the national economic climate and the local or regional economic climate in the markets in which we operate, which may be adversely impacted by, among other factors, industry slowdowns, relocation of businesses and changing demographics;

- periods of economic slowdown or recession, rising interest rates, or declining demand for self-storage or the public perception that any of these events may occur could result in a general decline in rental rates or an increase in tenant defaults;

- local or regional real estate market conditions such as the oversupply of self-storage or a reduction in demand for self-storage in a particular area;
- perceptions by prospective users of our self-storage properties of the safety, convenience and attractiveness of our properties and the neighborhoods in which they are located;
- increased operating costs, including the need for capital improvements, insurance premiums, real estate taxes and utilities;
- changes in the supply of or demand for similar or competing properties in an area;
- the impact of environmental protection laws;
- earthquakes, hurricanes and other natural disasters, terrorist acts, civil disturbances or acts of war which may result in uninsured or underinsured losses; and
- changes in tax, real estate and zoning laws.

Risks Related to Our Organization and Structure

Our business could be harmed if key personnel with long-standing business relationships in the self-storage industry terminate their employment with us.

Our success depends, to a significant extent, on the continued services of our Chairman and Chief Executive Officer and the other members of our executive management team. Our executive management team has substantial experience in the self-storage industry. In addition, our ability to continue to develop properties depends on the significant relationships our executive management team has developed with our institutional joint venture partners such as affiliates of Prudential Financial, Inc. There is no guarantee that any of them will remain employed by us. We do not maintain key person life insurance on any of our officers. The loss of services of one or more members of our executive management team, particularly our Chairman and Chief Executive Officer, could harm our business and our prospects.

We may change our investment and financing strategies and enter into new lines of business without stockholder consent, which may subject us to different risks.

We may change our investment and financing strategies and enter into new lines of business at any time without the consent of our stockholders, which could result in our making investments and engaging in business activities that are different from, and possibly riskier than, the investments and businesses described in this document. A change in our investment strategy or our entry into new lines of business may increase our exposure to other risks or real estate market fluctuations.

If other self-storage companies convert to an UPREIT structure or if tax laws change, we may no longer have an advantage in competing for potential acquisitions.

Because we are structured as an UPREIT, we are a more attractive acquirer of properties to tax-motivated sellers than our competitors that are not structured as UPREITs. However, if other self-storage companies restructure their holdings to become UPREITs, this competitive advantage will disappear. In addition, new legislation may be enacted or new interpretations of existing legislation may be issued by the Internal Revenue Service ("IRS"), or the U.S. Treasury Department that could affect the attractiveness of our UPREIT structure so that it may no longer assist us in competing for acquisitions.

Tax indemnification obligations may require the Operating Partnership to maintain certain debt levels.

In connection with the formation transactions entered into prior to our IPO in 2004 and certain other property acquisitions, we agreed to make available to each of Kenneth M. Woolley, our Chairman and Chief Executive Officer, Richard S. Tanner, our Senior Vice President, Development, and other third parties, the following tax protections: for nine years, with a three-year extension if the applicable party continues to own at least 50% of the OP units received by it in the formation transactions at the expiration of the initial nine-year period, the opportunity to (1) guarantee debt or (2) enter into a special loss allocation and deficit restoration obligation, in an aggregate amount, with respect to the foregoing contributors, of at least $60.0 million. We agreed to these provisions in order to assist these contributors in preserving their tax position after their contributions. These obligations may require us to maintain certain indebtedness that we would not otherwise require for our business.

Our joint venture investments could be adversely affected by our lack of sole decision-making authority.

As of December 31, 2007, we held interests in 346 properties through joint ventures. All of these arrangements could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers financial conditions and disputes between us and our co-venturers. We expect to continue our joint venture strategy by entering into more joint ventures for the purpose of developing new self-storage properties and acquiring existing properties. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. The decision-making authority regarding the properties we currently hold through joint ventures is either vested exclusively with our joint venture partners, is subject to a majority vote of the joint venture partners or equally shared by us and the joint venture partners. In addition, investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and efforts on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers, which could harm our financial condition.

Kenneth M. Woolley, our Chairman and Chief Executive Officer, Spencer F. Kirk, President, Richard S. Tanner, Senior Vice President, Development, Kent W. Christensen, Executive Vice President and Chief Financial Officer, and Charles L. Allen, Executive Vice President and Chief Legal Officer, members of our senior management team, have outside business interests which could divert their time and attention away from us, which could harm our business.

Kenneth M. Woolley, our Chairman and Chief Executive Officer, as well and certain other members of our senior management team, have outside business interests. These business interests include the ownership of a self-storage property located in Pico Rivera, California. Other than this property, the members of our senior management are not currently engaged in any other self-storage activities outside the Company. In addition, Mr. Woolley's employment agreement includes an exception to his non-competition covenant pursuant to which he is permitted to devote a portion of his time to the management and operations of Nevada West Development, LLC (formerly known as RMI Development, LLC), a multi-family business in which he has a majority ownership. Although Mr. Woolley's employment agreement requires that he devote substantially his full business time and attention to us, this agreement also permits him to devote time to his outside business interests. These outside business interests could interfere with his ability to devote time to our business and affairs and as a result, our business could be harmed.

Conflicts of interest could arise as a result of our relationship with our Operating Partnership.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, and our Operating Partnership or any partner thereof. Our directors and officers have duties to our Company under applicable Maryland law in connection with their management of our Company. At the same time, we, through our wholly-owned subsidiary, have fiduciary duties, as a general partner, to our Operating Partnership and to the limited partners under Delaware law in connection with the management of our Operating Partnership. Our duties, through our wholly-owned subsidiary, as a general partner to our Operating Partnership and its partners may come into conflict with the duties of our directors and officers to our Company. The partnership agreement of our Operating Partnership does not require us to resolve such conflicts in favor of either our Company or the limited partners in our Operating Partnership. Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness, and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits our liability by providing that neither we, our direct wholly-owned Massachusetts business trust subsidiary, as the general partner of the Operating Partnership, nor any of our or their trustees, directors or officers, will be liable or accountable in damages to our Operating Partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we, or such trustee, director or officer, acted in good faith. In addition, our Operating Partnership is required to indemnify us, our affiliates and each of our respective trustees, officers, directors, employees and agents to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities (whether joint or several), expenses (including, without limitation, attorneys' fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Operating Partnership, provided that our Operating Partnership will not indemnify for (1) willful misconduct or a knowing violation of the law, (2) any transaction for which such person received an improper personal benefit in violation or breach of any provision of the partnership agreement, or (3) in the case of a criminal proceeding, the person had reasonable cause to believe the act or omission was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement.

Our management's ownership of contingent conversion shares, or CCSs, and contingent conversion units, or CCUs, may cause them to devote a disproportionate amount of time to the performance of the related 14 wholly-owned lease-up properties, which could cause our overall operating performance to suffer.

In connection with our IPO, we issued to certain contributors, which included certain members of our senior management, CCSs and/or a combination of OP units and CCUs. The terms of the CCSs and CCUs provide that they will convert into our common stock and OP units, respectively, only if the relevant 14 lease-up properties identified at the time of the IPO achieve specified performance thresholds prior to December 31, 2008. As a result, our directors and officers who own CCSs and CCUs may have an incentive to devote a disproportionately large amount of their time and attention to these properties in comparison with our remaining properties, which could harm our overall operating results.

We may pursue less vigorous enforcement of terms of contribution and other agreements because of conflicts of interest with certain of our officers.

Kenneth M. Woolley, our Chairman and Chief Executive Officer, Spencer F. Kirk, President, Kent W. Christensen, Executive Vice President and Chief Financial Officer, Charles L. Allen, Executive Vice President and Chief Legal Officer, and Richard S. Tanner, Senior Vice President, Development had direct or indirect ownership interests in certain properties that were contributed to our Operating Partnership in the formation transactions. Following the completion of the formation transactions, we, under the agreements relating to the contribution of such interests, became entitled to indemnification and damages in the event of breaches of representations or warranties made by the contributors. In addition, Kenneth M. Woolley's employment agreement includes an exception to his non-competition covenant pursuant to which he is permitted to devote time to the management and operations of Nevada West Development, LLC (formerly known as RMI Development, LLC), a multi-family business. None of these contribution and non-competition agreements was negotiated at an arm's-length basis. We may choose not to enforce, or to enforce less vigorously, our rights under these contribution and non-competition agreements because of our desire to maintain our ongoing relationships with the individuals party to these agreements.

Certain provisions of Maryland law and our organizational documents, including the stock ownership limit imposed by our charter, may inhibit market activity in our stock and could prevent or delay a change in control transaction.

Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock or 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding capital stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership could jeopardize our qualification as a REIT. These restrictions on ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our securities or otherwise be in the best interests of our stockholders. Different ownership limits apply to the family of Kenneth M. Woolley, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing and Spencer F. Kirk, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing and certain designated investment entities (as defined in our charter).

Our board of directors has the power to issue additional shares of our stock in a manner that may not be in the best interest of our stockholders.

Our charter authorizes our board of directors to issue additional authorized but unissued shares of common stock or preferred stock and to increase the aggregate number of authorized shares or the number of shares of any class or series without stockholder approval. In addition, our board of directors may classify or reclassify any unissued shares of common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. Our board of directors could issue additional shares of our common stock or establish a series of preferred stock that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for our securities or otherwise not be in the best interests of our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

To the extent our distributions represent a return of capital for U.S. federal income tax purposes, our stockholders could recognize an increased capital gain upon a subsequent sale of common stock.

Distributions in excess of our current and accumulated earnings and profits and not treated by us as a dividend will not be taxable to a U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder's adjusted tax basis in his, her, or its common stock, but instead will constitute a return of capital and will reduce such adjusted basis. If distributions result in a reduction of a stockholder's adjusted basis in such holder's common stock, subsequent sales of such holder's common stock will result in recognition of an increased capital gain or decreased capital loss due to the reduction in such adjusted basis.

Risks Related to the Real Estate Industry

Our primary business involves the ownership, operation and development of self-storage properties.

Our current strategy is to own, operate and develop only self-storage properties. Consequently, we are subject to risks inherent in investments in a single industry. Because investments in real estate are inherently illiquid, this strategy makes it difficult for us to diversify our investment portfolio and to limit our risk when economic conditions change. Decreases in market rents, negative tax, real estate and zoning law changes and changes in environmental protection laws may also increase our costs, lower the value of our investments and decrease our income, which would adversely affect our business, financial condition and operating results.

Any negative perceptions of the self-storage industry generally may result in a decline in our stock price.

To the extent that the investing public has a negative perception of the self-storage industry, the value of our securities may be negatively impacted, which could result in our securities trading below the inherent value of our assets.

Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.

Under the ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws may also require modifications to our properties, or restrict certain further renovations of the properties, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. We have not conducted an audit or investigation of all of our properties to determine our compliance and we cannot predict the ultimate cost of compliance with the ADA or other legislation. If one or more of our properties is not in compliance with the ADA or other legislation, then we would be required to incur additional costs to bring the facility into compliance. If we incur substantial costs to comply with the ADA or other legislation, our financial condition, results of operations, cash flow, per share trading price of our securities and our ability to satisfy our debt service obligations and to make distributions to our stockholders could be adversely affected.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a property, we may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate.

Any investments in unimproved real property may take significantly longer to yield income-producing returns, if at all, and may result in additional costs to us to comply with re-zoning restrictions or environmental regulations.

We have invested in the past, and may invest in the future, in unimproved real property. Unimproved properties generally take longer to yield income-producing returns based on the typical time required for development. Any development of unimproved property may also expose us to the risks and uncertainties associated with re-zoning the land for a higher use or development and environmental concerns of governmental entities and/or community groups. Any unsuccessful investments or delays in realizing an income-producing return or increased costs to develop unimproved real estate could restrict our ability to earn our targeted rate of return on an investment or adversely affect our ability to pay operating expenses which would harm our financial condition and operating results.

Risks Related to Our Debt Financings

Required payments of principal and interest on borrowings may leave us with insufficient cash to operate our properties or to pay the distributions currently contemplated or necessary to maintain our qualification as a REIT and may expose us to the risk of default under our debt obligations.

As of December 31, 2007, we had approximately $1.3 billion of outstanding indebtedness. We expect to incur additional debt in connection with future acquisitions. We may borrow under our credit line or borrow new funds to acquire these future properties. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through refinancings and equity and/or debt offerings.

Further, we may need to borrow funds to make distributions required to maintain our qualification as a REIT or to meet our expected distributions.

If we are required to utilize our credit line for purposes other than acquisition activity, this will reduce the amount available for acquisitions and could slow our growth. Therefore, our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions or distributions required to maintain our qualification as a REIT;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- after debt service, the amount available for distributions to our stockholders is reduced;
- our debt level could place us at a competitive disadvantage compared to our competitors with less debt;
- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- our default under any one of our mortgage loans with cross-default or cross-collateralization provisions could result in a default on other indebtedness or result in the foreclosures of other properties.

We could become highly leveraged in the future because our organizational documents contain no limitation on the amount of debt we may incur.

Our organizational documents contain no limitations on the amount of indebtedness that we or our Operating Partnership may incur. We could alter the balance between our total outstanding indebtedness and the value of our portfolio at any time. If we become more highly leveraged, then the resulting increase in debt service could adversely affect our ability to make payments on our outstanding indebtedness and to pay our anticipated distributions and/or the distributions required to maintain our REIT qualification, and could harm our financial condition.

Increases in interest rates may increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness and make distributions to our stockholders.

As of December 31, 2007 we had approximately $1.3 billion of debt outstanding, of which approximately $124.9 million, or 9.5%, was subject to variable interest rates (including $61.8 million on which we had a reverse interest rate swap). This variable rate debt had a weighted average interest rate of approximately 5.9% per annum. Increases in interest rates on this variable rate debt would increase our interest expense, which could harm our cash flow and our ability to pay distributions. For example, if market rates of interest on this variable rate debt increased by 100 basis points, the increase in interest expense would decrease future earnings and cash flows by approximately $1.2 million annually.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

In certain cases we may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements. Hedging involves risks, such as the risk that the counterparty may fail to honor its obligations under an arrangement. Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations and ability to make distributions to our stockholders.

Recent disruptions in the financial markets could affect our ability to obtain debt financing on favorable terms (or at all) and have other adverse effects on us.

The United States credit markets have recently experienced significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. Continued uncertainty in the credit markets may negatively impact our ability to access additional debt financing or to refinance existing debt maturities on favorable terms (or at all), which may negatively affect our ability to make acquisitions and fund current and future development projects. A prolonged downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing. These events in the credit markets have also had an adverse effect on other financial markets in the United States, which may make it more difficult or costly for us to raise capital through the issuance of common stock, preferred stock or other equity securities. These disruptions in the financial markets may have other adverse effects on us or the economy generally.

Risks Related to Qualification and Operation as a REIT

To maintain our qualification as a REIT, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we are subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we are subject to a 4% nondeductible excise tax on the amount, if any, by which distributions made by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT qualification and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis, or possibly long-term, to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments.

Dividends payable by REITs generally do not qualify for reduced tax rates.

The maximum U.S. federal income tax rate for dividends paid by domestic corporations to individual U.S. stockholders is 15% (through 2010). Dividends paid by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our securities.

In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could negatively affect the value of our properties.

Possible legislative or other actions affecting REITs could adversely affect our stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders. It cannot be predicted whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our stockholders will be changed.

The power of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute our net taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.

Our failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.

We believe we operate in a manner that allows us to qualify as a REIT for U.S. federal income tax purposes under the Internal Revenue Code. If we fail to qualify as a REIT or lose our qualification as a REIT at any time, we will face serious tax consequences that would substantially reduce the funds available for distribution for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;
- we also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following a year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders, and all distributions to stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. This means that our U.S. individual stockholders would be taxed on our dividends at capital gains rates, and our U.S. corporate stockholders would be entitled to the dividends received deduction with respect to such dividends, subject, in each case, to applicable limitations under the Internal Revenue Code. If we fail to qualify as a REIT for federal income tax purposes and are able to avail ourselves of one or more of the relief provisions under the Internal Revenue Code in order to maintain our REIT status, we may nevertheless be required to pay penalty taxes of $50,000 or more for each such failure. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could adversely affect the value of our securities.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Internal Revenue Code is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets, the sources of our gross income and the owners of our stock. Our ability to satisfy the asset tests depends upon our analysis of the fair market value of our assets, some of which are not susceptible to precise determination, and for which we will not obtain independent appraisals. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains, and we will be subject to income tax at regular corporate rates to the extent we distribute less than 100% of our net taxable income including capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect our investors, our ability to qualify as a REIT for U.S. federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although we believe that we have been organized and have operated in a manner that is intended to allow us to qualify for taxation as a REIT, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the Internal Revenue Service regarding our qualification as a REIT.

We will pay some taxes.

Even though we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state and local taxes on our income and property. Extra Space Management, Inc. manages self-storage properties for our joint venture properties and properties owned by third parties. We, jointly with Extra Space Management, Inc., elected to treat Extra Space Management, Inc. as a "taxable REIT subsidiary" of our Company for U.S. federal income tax purposes. A taxable REIT subsidiary is a fully taxable corporation, and may be limited in its ability to deduct interest payments made to us. In addition, we will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our taxable REIT subsidiary and us are not comparable to similar arrangements among unrelated parties or if we receive payments for inventory or property held for sale to customers in the ordinary course of business. Also, if we sell property as a dealer (i.e., to customers in the ordinary course of our trade or business), we will be subject to a 100% penalty tax on any gain arising from such sales. While we don't intend to sell properties as a dealer, the IRS could take a contrary position. To the extent that we are or our taxable REIT subsidiary is required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to stockholders.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego attractive business or investment opportunities. Thus, compliance with the REIT requirements may adversely affect our ability to operate solely to maximize profits.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2007, we owned or had ownership interests in 606 self-storage properties located in 33 states and Washington, D.C. Of these properties, 260 are wholly-owned and 346 are held in joint ventures. In addition, we managed an additional 45 properties for franchisees or third parties bringing the total number of properties which we own and/or manage to 651. We receive a management fee equal to approximately 6% of gross revenues to manage the joint venture, third party and franchise sites. As of December 31, 2007, we owned or had ownership interest in approximately 44 million square feet of space configured in approximately 420,000 separate storage units. Approximately 70% of our properties are clustered around the larger 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. These markets contain above-average population and income demographics for new self-storage properties. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. The Storage USA acquisition in 2005 gave 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 December 31, 2007, approximately 300,000 tenants were leasing storage units at the 651 properties that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as market conditions 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 December 31, 2007, the median length of stay was approximately eleven months.

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 on a state-by-state basis as of December 31, 2007 and 2006. The information as of December 31, 2006 is on a pro forma basis as though all the properties owned at December 31, 2007 were under our control as of December 31, 2006.

Stabilized Property Data Based on Location

Location	Number of Properties	Company Number of Units as of Dec. 31, 2007(1)	Pro forma Number of Units as of Dec. 31, 2006	Company Net Rentable Square Feet as of Dec. 31, 2007(2)	Pro forma Net Rentable Square Feet as of Dec. 31, 2006	Company Square Foot Occupancy % Dec. 31, 2007	Pro forma Square Foot Occupancy % Dec. 31, 2006
Wholly-owned properties							
Alabama	1	585	609	76,685	76,295	75.7%	70.8%
Arizona	4	2,264	2,258	279,868	279,150	89.1%	91.6%
California	42	34,856	34,843	3,322,104	3,314,084	82.9%	82.2%
Colorado	6	2,942	2,966	360,941	359,491	85.1%	85.6%
Connecticut	1	745	745	62,505	62,430	82.6%	78.7%
Florida	28	18,618	18,615	1,952,857	1,951,174	83.4%	86.2%
Georgia	12	6,447	6,481	835,386	835,303	85.0%	85.9%
Hawaii	2	2,876	2,864	150,088	154,413	79.3%	81.2%
Illinois	4	2,676	2,671	263,589	264,084	85.7%	85.4%
Indiana	1	589	590	62,250	62,250	84.0%	85.8%
Kansas	1	506	502	49,940	49,940	90.4%	89.4%
Kentucky	3	1,591	1,578	194,470	194,351	82.9%	83.1%
Louisiana	2	1,411	1,413	148,155	147,990	87.2%	92.6%
Maryland	9	7,450	7,365	795,596	764,026	83.7%	83.1%
Massachusetts	24	13,509	13,484	1,432,791	1,437,792	82.0%	82.0%
Michigan	2	1,040	1,046	135,474	134,722	84.5%	80.5%
Missouri	6	3,177	3,159	375,557	374,962	83.0%	84.7%
Nevada	2	1,253	1,240	132,065	130,935	83.9%	84.0%
New Hampshire	2	1,007	1,006	125,909	125,609	82.9%	81.6%
New Jersey	21	17,095	17,110	1,669,263	1,671,053	83.5%	85.3%
New Mexico	1	503	531	61,690	67,290	87.1%	94.4%
New York	8	7,233	7,246	487,784	487,239	80.2%	80.0%
Ohio	4	2,027	2,042	273,236	275,291	82.5%	83.2%
Oregon	1	764	767	103,450	103,610	88.5%	86.6%
Pennsylvania	8	6,145	6,134	639,377	641,922	83.0%	82.9%
Rhode Island	1	726	730	75,201	75,241	87.6%	85.5%
South Carolina	4	2,067	2,068	245,734	245,734	89.8%	89.0%
Tennessee	6	3,527	3,535	476,612	474,852	81.7%	86.8%
Texas	19	11,858	11,963	1,337,182	1,343,041	87.2%	84.3%
Utah	3	1,533	1,531	210,640	210,350	91.1%	91.3%
Virginia	4	2,889	2,893	272,699	272,663	82.3%	80.4%
Washington	3	2,031	2,030	244,865	244,595	89.1%	93.9%
Total Wholly-Owned Stabilized	**235**	**161,940**	**162,015**	**16,853,963**	**16,831,882**	**83.9%**	**84.3%**

Joint-venture properties							
Alabama	3	1,708	1,720	205,638	205,493	85.2%	88.4%
Arizona	11	6,900	6,898	751,526	751,266	87.0%	92.1%
California	73	52,388	52,453	5,384,022	5,383,859	87.6%	86.7%
Colorado	2	1,333	1,335	158,063	158,013	81.3%	80.3%
Connecticut	8	5,979	5,979	690,424	689,739	77.3%	78.8%
Delaware	1	589	589	71,655	71,655	91.8%	87.5%
Florida	23	19,314	19,290	1,951,316	1,941,486	83.9%	84.9%
Georgia	3	1,889	1,918	246,926	251,510	81.0%	78.5%
Illinois	6	4,005	4,029	431,547	433,292	80.7%	77.0%
Indiana	8	3,153	3,143	406,503	406,113	85.8%	85.7%
Kansas	3	1,217	1,214	163,705	164,200	82.2%	85.0%
Kentucky	4	2,286	2,276	268,547	268,339	86.9%	82.6%
Maryland	13	10,223	10,219	1,013,293	1,012,848	84.2%	83.1%
Massachusetts	16	8,480	8,539	972,515	974,415	81.2%	81.1%
Michigan	10	5,955	5,957	784,303	783,032	86.2%	78.0%
Missouri	2	954	953	118,195	118,235	84.6%	72.9%
Nevada	7	4,638	4,642	620,179	620,698	88.8%	88.4%
New Hampshire	3	1,321	1,323	137,554	137,754	85.1%	83.6%
New Jersey	20	15,138	15,148	1,592,743	1,590,686	80.8%	85.4%
New Mexico	8	4,201	4,197	462,110	462,124	80.1%	82.4%
New York	21	22,158	22,116	1,720,225	1,715,111	86.7%	84.1%
Ohio	11	5,017	5,031	749,427	752,202	81.4%	84.4%
Oregon	2	1,289	1,289	136,660	137,140	88.6%	92.5%
Pennsylvania	9	6,471	6,483	687,048	688,040	83.4%	83.5%
Rhode Island	1	610	611	73,880	73,905	71.5%	69.2%
Tennessee	22	11,802	11,850	1,549,313	1,549,217	85.3%	85.4%
Texas	18	11,836	11,869	1,521,306	1,520,261	78.9%	77.1%
Utah	1	520	520	59,500	59,400	88.9%	89.4%
Virginia	15	10,414	10,387	1,107,780	1,106,646	84.3%	80.9%
Washington	1	551	551	62,730	62,730	88.3%	82.2%
Washington, DC	1	1,536	1,536	102,003	101,990	89.5%	86.6%
Total Stabilized Joint-Ventures	**326**	**223,875**	**224,065**	**24,200,636**	**24,191,399**	**84.4%**	**83.9%**
Managed properties							
California	4	2,680	2,685	333,175	333,175	74.4%	80.2%
Colorado	1	513	513	56,240	56,240	89.2%	82.9%
Florida	1	573	570	56,845	56,535	90.1%	92.4%
Georgia	7	4,534	4,555	485,434	488,475	84.4%	84.5%
Maryland	3	3,244	3,139	278,877	258,613	81.7%	79.5%
Nevada	1	435	440	61,235	61,235	82.7%	78.8%
New Jersey	2	1,101	1,093	131,707	131,492	86.8%	87.3%
New Mexico	2	1,576	1,585	171,555	171,555	84.4%	89.2%
Pennsylvania	2	886	889	130,750	131,330	91.4%	88.0%
Tennessee	2	1,146	1,150	135,410	135,695	89.7%	89.4%
Texas	1	371	371	46,955	46,955	99.3%	97.9%
Utah	2	1,437	1,433	136,627	136,737	83.3%	76.8%
Washington, DC	2	1,255	1,256	111,759	111,809	80.8%	82.5%
Total Stabilized Managed Properties	**30**	**19,751**	**19,679**	**2,136,569**	**2,119,846**	**83.7%**	**84.0%**
Total Stabilized Properties	**591**	**405,566**	**405,759**	**43,191,168**	**43,143,127**	**84.1%**	**84.1%**

(1) *Represents unit count as of December 31, 2007, which may differ from December 31, 2006 unit count due to unit conversions or expansions.*

(2) *Represents net rentable square feet as of December 31, 2007, which may differ from December 31, 2006 net rentable square feet due to unit conversions or expansions.*

The following table sets forth additional information regarding the occupancy of our lease-up properties on a state-by-state basis as of December 31, 2007 and 2006. The information as of December 31, 2006 is on a pro forma basis as though all the properties owned at December 31, 2007 were under our control as of December 31, 2006.

Lease-up Property Data Based on Location

Location	Number of Properties	Company Number of Units as of Dec. 31, 2007(1)	Pro forma Number of Units as of Dec. 31, 2006	Company Net Rentable Square Feet as of Dec. 31, 2007(2)	Pro forma Net Rentable Square Feet as of Dec. 31, 2006	Company Square Foot Occupancy % Dec. 31, 2007	Pro forma Square Foot Occupancy % Dec. 31, 2006
Wholly-owned properties							
Arizona	1	586	599	67,375	67,375	77.5%	55.8%
California	6	4,189	3,358	485,541	381,401	65.5%	63.7%
Colorado	1	357	360	58,928	58,928	81.4%	71.8%
Connecticut	2	1,295	1,308	115,600	115,820	73.5%	68.1%
Florida	2	1,258	1,254	157,305	156,820	73.3%	61.3%
Illinois	2	1,310	589	155,050	75,810	39.5%	63.7%
Maryland	1	622	—	76,070	—	0.0%	0.0%
Massachusetts	5	3,815	3,820	358,889	359,832	64.7%	47.3%
New Jersey	2	1,756	1,743	163,855	163,815	79.3%	76.0%
Pennsylvania	1	422	424	46,930	47,160	78.6%	65.3%
Texas	1	617	615	64,650	64,625	77.4%	44.6%
Washington	1	506	527	61,250	61,250	90.5%	83.5%
Total Wholly-Owned Lease-up	**25**	**16,733**	**14,597**	**1,811,443**	**1,552,836**	**65.4%**	**61.3%**
Joint-venture properties							
California	7	4,952	3,661	506,656	344,578	55.9%	57.2%
Florida	1	772	—	114,825	—	48.4%	0.0%
Illinois	3	2,495	2,528	264,527	264,442	66.9%	49.5%
Maryland	1	944	957	73,672	73,644	58.7%	25.1%
Massachusetts	1	786	791	74,880	74,880	85.4%	79.8%
New Jersey	2	1,196	560	119,735	62,400	55.4%	75.2%
New Mexico	1	490	508	76,154	65,904	90.8%	92.5%
New York	1	1,578	1,579	116,190	116,260	77.5%	72.6%
Pennsylvania	1	754	764	76,496	76,773	91.6%	82.9%
Rhode Island	1	499	504	55,570	55,995	35.0%	29.1%
Virginia	1	878	878	84,383	84,383	80.2%	61.2%
Total Lease-up Joint-Ventures	**20**	**15,344**	**12,730**	**1,563,088**	**1,219,259**	**64.3%**	**59.9%**
Managed properties							
California	2	1,242	1,254	155,660	156,070	82.8%	76.7%
Florida	2	1,275	1,297	108,695	111,121	81.0%	64.8%
Georgia	2	978	1,030	115,240	114,840	73.1%	69.4%
Indiana	1	555	589	68,690	68,690	79.8%	64.9%
Maryland	1	727	731	67,910	67,885	83.4%	72.0%
Massachusetts	2	2,146	2,150	189,944	190,244	65.0%	54.2%
New Jersey	1	862	—	78,030	—	28.0%	0.0%
Pennsylvania	1	1,128	—	104,850	—	10.9%	0.0%
Texas	2	1,139	1,165	125,280	124,445	87.4%	77.1%
Virginia	1	687	682	74,840	74,850	81.4%	75.3%
Total Lease-up Managed	**15**	**10,739**	**8,898**	**1,089,139**	**908,145**	**67.9%**	**68.3%**
Total Lease-up Properties	**60**	**42,816**	**36,225**	**4,463,670**	**3,680,240**	**65.6%**	**62.6%**

(1) *Represents unit count as of December 31, 2007, which may differ from December 31, 2006 unit count due to unit conversions or expansions.*

(2) *Represents net rentable square feet as of December 31, 2007, which may differ from December 31, 2006 net rentable square feet due to unit conversions or expansions.*

Item 3. Legal Proceedings

We are involved in various litigation and legal 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, will have a material adverse effect on our financial condition or results of operations either individually or in the aggregate.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of our security holders during the quarter ended December 31, 2007.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock has been traded on the New York Stock Exchange ("NYSE") under the symbol "EXR" since our IPO on August 17, 2004. Prior to that time there was no public market for our common stock.

The following table sets forth, for the periods indicated, the high and low bid price for our common stock as reported by the NYSE and the per share dividends declared:

Year	Quarter	Range		Dividends Declared
		High	Low	
2006	1st	17.22	14.25	0.2275
	2nd	17.20	14.40	0.2275
	3rd	18.24	15.50	0.2275
	4th	19.00	16.96	0.2275
2007	1st	20.55	17.85	0.2275
	2nd	19.99	16.26	0.2275
	3rd	16.84	13.60	0.2275
	4th	16.63	13.10	0.2500

On February 15, 2008, the closing price of our common stock as reported by the NYSE was $14.07. At February 15, 2008, we had 288 holders of record of our common stock.

Holders of shares of common stock are entitled to receive distributions when declared by our board of directors out of any assets legally available for that purpose. As a REIT, we are required to distribute at least 90% of our "REIT taxable income," which is generally equivalent to our net taxable ordinary income, determined without regard to the deduction for dividends paid to our stockholders annually in order to maintain our REIT qualification for U.S. federal income tax purposes.

Item 6. Selected Financial Data

The following table sets forth the selected financial data and should be read in conjunction with the Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K. The financial data covered in this section for the period from January 1, 2003 to August 16, 2004 contain the results of operations and financial condition of Extra Space Storage LLC and its subsidiaries, the predecessor to Extra Space Storage Inc. and its subsidiaries, prior to the consummation of Extra Space Storage Inc.'s initial public offering on

August 17, 2004, and various formation transactions. (Dollars in thousands, except share and per share data.)

	Company				Predeccessor
	For the Year Ended December 31,				
	2007	2006	2005	2004	2003
Revenues:					
Property rental	$ 206,315	$ 170,993	$ 120,640	$ 62,656	$ 33,054
Fees and other income	32,551	26,271	14,088	3,064	2,762
Total revenues	238,866	197,264	134,728	65,720	35,816
Expenses:					
Property operations	73,070	62,243	45,963	26,066	14,858
Tenant insurance	4,710	2,328	1,023	—	—
Unrecovered development and acquisition costs	765	269	302	739	4,937
General and administrative	36,722	35,600	24,081	12,465	8,297
Depreciation and amortization	39,801	37,172	31,005	15,552	6,805
Total expenses	155,068	137,612	102,374	54,822	34,897
Income before interest, loss on debt extinguishments, Preferred Operating Partnership, equity in earnings of real estate ventures, impairment, minority interests and gain on sale of real estate assets	83,798	59,652	32,354	10,898	919
Interest expense	(61,015)	(50,953)	(42,549)	(28,491)	(18,746)
Interest income	10,417	2,469	1,625	251	445
Loss on debt extinguishments	—	—	—	(3,523)	—
Equity in earnings of real estate ventures	5,300	4,693	3,170	1,387	1,465
Fair value adjustment of obligation associated with Preferred Operating Partnership units	1,054	—	—	—	—
Impairment of investments available-for-sale	(1,233)	—	—	—	—
Minority interest in operating partnership and other minority interests	(2,227)	(985)	434	(733)	(2,701)
Income (loss) before gain on sale of real estate assets	36,094	14,876	(4,966)	(20,211)	(18,618)
Gain on sale of real estate assets	—	—	—	1,749	672
Net income (loss)	36,094	14,876	(4,966)	(18,462)	(17,946)
Fixed distribution paid to Preferred Operating Partnership unit holder	(1,510)	—	—	—	—
Preferred return on Class B, C, and E units	—	—	—	(5,758)	(5,336)
Loss on early redemption of Fidelity minority interest	—	—	—	(1,478)	—
Net income (loss) attributable to common stockholders	$ 34,584	$ 14,876	$ (4,966)	$ (25,698)	$ (23,282)
Net income (loss) per common share					
Basic	$ 0.53	$ 0.27	$ (0.14)	$ (1.68)	$ (5.62)
Diluted	$ 0.53	$ 0.27	$ (0.14)	$ (1.68)	$ (5.62)
Weighted average number of shares					
Basic	64,688,741	54,998,935	35,481,538	15,282,725	4,141,959
Diluted	70,503,668	59,291,749	35,481,538	15,282,725	4,141,959
Cash dividends paid per common share (1)	$ 0.93	$ 0.91	$ 0.91	$ 0.34	$ —
Balance Sheet Data					
Total assets	$ 2,054,075	$ 1,669,825	$ 1,420,192	$ 748,484	$ 383,751
Total notes payable, notes payable to trusts and lines of credit	1,319,771	948,174	866,783	472,977	273,808
Minority interests	64,982	35,158	36,235	21,453	22,390
Redeemable units and members' and shareholders' equity	$ 619,921	$ 643,555	$ 480,128	$ 243,607	$ 21,701
Other Data					
Net cash provided by (used in) operating activities	$ 101,332	$ 76,885	$ 17,463	$ (6,158)	$ (8,526)
Net cash used in investing activities	$ (253,579)	$ (239,778)	$ (614,834)	$ (261,298)	$ (59,206)
Net cash provided by financing activities	$ 98,823	$ 205,041	$ 601,695	$ 280,039	$ 73,017

(1) 2004 dividend based on annual dividend of $0.91 per common share

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. 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-K entitled "Statements Regarding Forward-Looking Information." Certain risk factors may cause actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the section in this Form 10-K entitled "Risk Factors."

Overview

We are a fully integrated, self-administered and self-managed real estate investment trust, or REIT, formed to continue the business commenced in 1977 by our predecessor companies to own, operate, acquire, develop and redevelop professionally managed self-storage properties. Since 1996, our fully integrated development and acquisition teams have completed the development or acquisition of more than 625 self-storage properties.

In July 2005, we, along with joint-venture partner Prudential Real Estate Investors ("PREI"), acquired Storage USA ("SUSA") from GE Commercial Finance for approximately $2.3 billion in cash. The transaction made us the second largest operator of self-storage facilities in the United States. At December 31, 2007, we owned or managed 651 properties in 33 states and Washington, D.C. As of December 31, 2007, 260 of our properties were wholly-owned, we held joint venture interests in 346 properties, and our taxable REIT subsidiary, Extra Space Management, Inc., operated an additional 45 properties that are owned by franchisees or third parties in exchange for a management fee. The properties that we own or in which we hold an ownership interest contain approximately 44 million square feet of rentable space contained in approximately 420,000 units and currently serve a customer base of approximately 300,000 tenants.

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. These areas all enjoy above average population growth and income levels. The clustering of our assets around these population centers enables us to reduce our operating costs through economies of scale. We consider a property to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. A property is considered to be stabilized once it has achieved an 80% occupancy rate for a full year measured as of January 1, or has been open for three years.

The SUSA acquisition gave us a national platform upon which to leverage operational, advertising and other economic efficiencies. The acquisition also created a built-in acquisition pipeline through various joint-venture, franchise and third-party management partners from which we have grown and can continue to grow in the future. We also retained several key executives from the SUSA organization, as well as the majority of its field operations team.

To maximize the performance of our properties, we employ a state-of-the-art, proprietary, web-based tracking and yield management technology called STORE. Developed by our management team, STORE enables us to analyze, set and adjust rental rates in real time across our portfolio in order to respond to changing market conditions. As part of the SUSA acquisition, we gained access to SUSA's industry leading revenue management team ("RevMan"), which managed SUSA's rental rate and discount strategies. We believe that the combination of STORE's yield management capabilities and the systematic processes developed by RevMan has allowed us to more proactively manage revenues.

We derive substantially all of our revenues from rents received from tenants under existing leases at each of our self-storage properties, from management fees on the properties we manage for joint-venture partners, franchisees and unaffiliated third parties and from our tenant insurance 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 minor seasonal fluctuations in occupancy levels, with occupancy levels generally higher in the summer months due to increased moving activity. Our operating results depend materially on our ability to lease available self-storage units, to actively manage unit rental rates, and on the ability of our tenants to make required rental payments. We believe that we are able to respond quickly and effectively to changes in local, regional and national economic conditions by adjusting rental rates through the use of STORE, and through the use of the processes developed by RevMan.

We continue to evaluate and implement 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 plan to pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team will seek to maximize revenue by responding to changing market conditions through STORE's ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than the majority of our competitors to implement national, regional and local marketing programs, which we believe will attract more customers to our stores at a lower net cost.

- ***Focus on the acquisition of self-storage properties from strategic partners and third parties.*** Our acquisitions team will continue to pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. Our July 2005 acquisition of Storage USA has bolstered our reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close non-brokered, private deals. In addition, our status as an UPREIT enables flexibility when structuring deals.

- ***Develop new self-storage properties.*** We currently have several joint venture and wholly-owned development properties and will continue to develop new self-storage properties in our core markets. Our development pipeline through 2009 includes 26 projects. The majority of the projects will be developed on a wholly-owned basis by the Company.

- ***Expand our management business.*** We see our management business as a future acquisition pipeline. We expect to pursue strategic relationships with owners that should strengthen our acquisition pipeline through agreements which give us first right of refusal to purchase the managed property in the event of a potential sale. Nineteen of our 39 2007 acquisitions came from this channel.

During 2007, we acquired 38 wholly-owned properties and a minority equity interest in one additional consolidated property. We completed the development of six properties in our core markets. Of the properties completed, three are wholly-owned, and three are owned by us in joint ventures. These joint venture properties provide us with a potential acquisition pipeline in the future. Twelve properties are scheduled for completion in 2008, 11 of which are wholly-owned and one of which will be owned by us in a consolidated joint venture.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those that impact our most critical accounting policies. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates. We believe the following are our most critical accounting policies:

CONSOLIDATION: We follow FASB Interpretation No. 46R, "*Consolidation of Variable Interest Entities*" ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIEs"). Under FIN 46R, arrangements that are not controlled through voting or similar rights are accounted for as VIEs. An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

Under FIN 46R, a VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity's equity holders as a group either: (a) lack direct or indirect ability to make decisions about the entity through voting or similar rights, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE pursuant to FIN 46R, the enterprise that is deemed to absorb a majority of the expected losses or receive a majority of expected residual returns of the VIE is considered the primary beneficiary and must consolidate the VIE.

Based on the provisions of FIN 46R, we have concluded that under certain circumstances when we (i) enter into option agreements for the purchase of land or facilities from an entity and pay a non-refundable deposit, or (ii) enter into arrangements for the formation of joint ventures, a VIE may be created under condition (ii) (b) or (c) of the previous paragraph. For each VIE created, we have considered expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46R. If we are determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated with our financial statements.

REAL ESTATE ASSETS: Real estate assets are stated at cost, less accumulated depreciation. Direct and allowable internal costs associated with the development, construction, renovation, and improvement of real estate assets are capitalized. Interest, property taxes, and other costs associated with development incurred during the construction period are capitalized.

Expenditures for maintenance and repairs are charged to expense as incurred. Major replacements and betterments that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between five and 39 years.

In connection with our acquisition of properties, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values. We measure the value of tenant relationships based on our historical experience with turnover in our facilities. We amortize to expense the tenant relationships on a straight-line basis over the average period that a tenant is expected to utilize the facility (currently estimated to be 18 months).

Intangible lease rights include: (1) purchase price amounts allocated to leases on two properties that cannot be classified as ground or building leases; these rights are amortized to expense over the term of the leases and (2) intangibles related to ground leases on four properties that were acquired in 2007. These ground leases were assumed by the Company at rates that were lower than the current market rates for similar leases. The value associated with these assumed leases were recorded as intangibles, which will be amortized over the lease terms.

EVALUATION OF ASSET IMPAIRMENT: We evaluate long-lived assets which are held for use for impairment when events or circumstances indicate that there may be an impairment. If such events occur, we compare the carrying value of these 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 asset exceeds the undiscounted future net operating cash flows attributable to the asset. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset.

When real estate assets are identified by management as held for sale, we discontinue depreciating the assets and estimate the fair value, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified for sale are 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 presented as discontinued operations for all periods presented.

INVESTMENTS AVAILABLE-FOR-SALE

We account for our investments in debt and equity securities according to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires securities classified as "available-for-sale" to be stated at fair value. Adjustments to fair value of available-for-sale securities are recorded as a component of other comprehensive income. A decline in the market value of investment securities below cost, that is deemed to be other than temporary, results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. We classify our investments in auction rate securities as investments available-for-sale in the accompanying balance sheet. These investments are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income (loss). The estimation process for fair valuing the investments included consideration of such factors as issuer and insurer credit rating, comparable market data, if available, credit enhancement structures, projected yields, discount rates and terminal periods.

FAIR VALUE OF FINANCIAL INSTRUMENTS: The carrying values of cash and cash equivalents, investments available-for-sale, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable rate notes payable and other liabilities reflected in the consolidated balance sheets at December 31, 2007 and 2006 approximate fair value. The fair value of fixed rate notes payable and notes payable to trusts at December 31, 2007 and 2006 was $1.3 billion and $836.0 million, respectively. The carrying value of these fixed rate notes payable and notes payable to trusts at December 31, 2007 and 2006 was $1.2 billion and $863.0 million, respectively.

INVESTMENTS IN REAL ESTATE VENTURES: Our investments in real estate joint ventures where we have significant influence but not control, and joint ventures which are VIEs in which we are not the primary beneficiary, are recorded under the equity method of accounting on the accompanying consolidated financial statements.

Under the equity method, our investment in real estate ventures is stated at cost and adjusted for our share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on our ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, we follow the "look through" approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture's sale of assets) in which case it is reported as an investing activity.

Our management assesses whether there are any indicators that the value of our investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate that there may be an 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 it is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: Statement of Financial Accounting Standards ("SFAS") No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended and interpreted, establishes accounting and reporting standards for derivative instruments and hedging activities. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (loss), outside of earnings and subsequently reclassified to earnings when the hedged transaction affects earnings.

CONVERSION OF OPERATING PARTNERSHIP UNITS: Conversions of Operating Partnership units to common stock, when converted under the original provisions of the agreement, are accounted for by reclassifying the underlying net book value of the units from minority interest to equity in accordance with EITF No. 95-7, "*Implementation Issues Related to the Treatment of Minority Interest in Certain Real Estate Investment Trusts.*"

REVENUE AND EXPENSE RECOGNITION: Rental revenues are recognized as earned based upon amounts that are currently due from tenants. Leases are generally on month-to-month terms. Prepaid rents are recognized on a straight-line basis over the term of the leases. Promotional discounts are recognized as a reduction to rental income over the promotional period. Late charges, administrative fees, merchandise sales and truck rentals are recognized in income when earned. Management and franchise fee revenues are recognized monthly as services are performed and in accordance with the terms of the management agreements. Tenant insurance premiums are recognized as revenues over the period of insurance coverage. Development fee revenues are recognized as development costs are incurred. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities. Interest income is recognized as earned.

Property expenses, including utilities, property taxes, repairs and maintenance and other costs to manage the facilities are recognized as incurred. We accrue for property tax expense based upon estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

REAL ESTATE SALES: We evaluate real estate sales for both sale recognition and profit recognition in accordance with the provisions of SFAS No. 66, "*Accounting for Sales of Real Estate*." In general, sales of real estate and related profits/losses are recognized when all consideration has changed hands and risks and rewards of ownership have been transferred. Certain types of continuing involvement preclude sale treatment and related profit recognition; other forms of continuing involvement allow for sale recognition but require deferral of profit recognition.

INCOME TAXES: We have elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code. In order to maintain our qualification as a REIT, among other things, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet certain tests regarding the nature of our income and assets. As a REIT, we are not subject to federal income tax with respect to that portion of our income which meets certain criteria and is distributed annually to our stockholders. We plan to continue to operate so that we meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax. We are subject to certain state and local taxes. Provision for such taxes has been included in property operating expenses in our consolidated statement of operations.

We have elected to treat one of our corporate subsidiaries as a taxable REIT subsidiary ("TRS"). In general, our TRS may perform additional services for tenants and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). Our TRS is subject to corporate federal income tax. The Company accounts for income taxes in accordance with the provisions of FASB Statement No. 109, "*Accounting for Income Taxes*" ("FAS 109"). Under FAS 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. There were no material deferred tax assets or liabilities as of December 31, 2007 or 2006, and no material income tax provisions or the years ended December 31, 2007, 2006 or 2005.

We adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"), an interpretation of FAS 109 on January 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, there were no material unrecognized tax benefits. At December 31, 2007, there were no material unrecognized tax benefits. Interest and penalties related to uncertain tax positions will be recognized in income tax expense when incurred.

STOCK-BASED COMPENSATION: Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), "*Share-Based Payment*," ("SFAS 123R"), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. SFAS 123R supersedes SFAS No. 123, "*Accounting for Stock-Based Compensation*" and Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25"). We adopted SFAS 123R using the modified prospective application method of adoption which requires us to record compensation cost related to non-vested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over their remaining service period with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS 123R and recognized on a straight line basis over the service periods of each award.

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006 (Dollars in thousands)

Overview

Results for the year ended December 31, 2007 included the operations of 606 properties (262 of which were consolidated and 344 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2006, which included operations of 567 properties (219 of which were consolidated and 348 of which were in joint ventures accounted for using the equity method). Results for both periods also included equity in earnings of real estate ventures, third-party management and franchise fees and development fees.

Revenues

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

	Year ended December 31, 2007	Year ended December 31, 2006	$ Change	% Change
Revenues:				
Property rental	$ 206,315	$ 170,993	$ 35,322	20.7%
Management and franchise fees	20,598	20,883	(285)	(1.4)%
Tenant insurance	11,049	4,318	6,731	155.9%
Development fees	357	272	85	31.3%
Other income	547	798	(251)	(31.5)%
Total revenues	$ 238,866	$ 197,264	$ 41,602	21.1%

Property Rental—The increase in property rental revenues consists of $28,335 associated with acquisitions completed in 2006 and 2007, $5,298 associated with rental rate increases at stabilized properties, and $1,689 from increases in occupancy at lease-up properties.

Management and Franchise Fees—Our taxable REIT subsidiary, Extra Space Management, Inc., manages properties owned by our joint ventures, franchisees and third parties. Management fees generally represent 6.0% of cash collected from properties owned by third parties, franchisees and unconsolidated joint ventures. Revenues from management and franchise fees have remained fairly stable compared to the previous year. Increased revenues at our joint venture, franchise, and third-party managed sites related to rental rate and occupancy increases have been offset by lost management fees due to the termination of certain management agreements mainly due to the acquisition of the managed properties.

Tenant Insurance—The increase in tenant insurance revenues is due to the introduction of our captive insurance program at all wholly-owned properties in October 2006. In addition, during the year ended December 31, 2007, we promoted the tenant insurance program and successfully increased overall customer participation to approximately 34% at December 31, 2007 compared to approximately 18% at December 31, 2006.

Development Fees—The increase in development fee revenues was due to the increased volume of development relating to joint ventures in 2007 compared to 2006.

Expenses

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

	Year ended December 31, 2007	Year ended December 31, 2006	$ Change	% Change
Expenses:				
Property operations	$ 73,070	$ 62,243	$ 10,827	17.4%
Tenant insurance	4,710	2,328	2,382	102.3%
Unrecovered development and acquisition costs	765	269	496	184.4%
General and administrative	36,722	35,600	1,122	3.2%
Depreciation and amortization	39,801	37,172	2,629	7.1%
Total expenses	$ 155,068	$ 137,612	$ 17,456	12.7%

Property Operations—The increase in property operations expense in 2007 was primarily due to increases of $9,202 associated with acquisitions completed in 2006 and 2007. There were also increases in expenses of $1,625 at existing properties primarily due to increases in repairs and maintenance, insurance and property taxes.

Tenant Insurance—The increase in tenant insurance expense is due to the increase in tenant insurance revenues during 2007. A large portion of tenant insurance expense is variable and increases as tenant insurance revenues increase. In October 2006, we introduced our captive insurance program at all wholly-owned properties. During the year ended December 31, 2007, we promoted the tenant insurance program and successfully increased overall customer participation to approximately 34% at December 31, 2007 compared to approximately 18% at December 31, 2006.

General and Administrative—The increase in general and administrative expenses was due to the increased costs associated with the management of the additional properties that have been added through acquisitions and development in 2006 and 2007.

Depreciation and Amortization—The increase in depreciation and amortization expense is a result of additional properties that have been added through acquisition and development throughout 2006 and 2007.

Other Income and Expenses

The following table sets forth information on other income and expenses for the years indicated:

	Year ended December 31, 2007	Year ended December 31, 2006	$ Change	% Change
Other income and expenses:				
Interest expense	$ (61,015)	$ (50,953)	$ (10,062)	19.7%
Interest income	7,925	2,469	5,456	221.0%
Interest income on note receivable from Preferred Unit holder	2,492	—	2,492	100.0%
Equity in earnings of real estate ventures	5,300	4,693	607	12.9%
Fair value adjustment of obligation associated with Preferred Partnership units	1,054	—	1,054	100.0%
Impairment of investments available-for-sale	(1,233)	—	(1,233)	100.0%
Minority interest—Operating Partnership	(2,508)	(985)	(1,523)	154.6%
Minority interest—other	281	—	281	100.0%
Total other expense	$ (47,704)	$ (44,776)	$ (2,928)	6.5%

Interest Expense—The increase in interest expense for the year ended December 31, 2007 was due primarily to $6,897 associated with the exchangeable notes issued in March 2007 and $5,267 of interest expense on the mortgage loans associated with acquisitions completed in 2006 and 2007. The increase was offset by lower interest costs on corporate borrowings and existing property debt. Capitalized interest during the years ended December 31, 2007 and 2006 was $4,380 and $3,232, respectively.

Interest Income—Interest income earned in 2007 was mainly the result of the interest earned on the net proceeds received from the $250 million exchangeable notes issued in March 2007 and on the remaining net proceeds from the sale of stock in September 2006. Invested cash decreased steadily throughout 2007 as the funds were used for acquisitions and development.

Interest Income on Note Receivable from Preferred Unit holders—Represents interest on a $100 million loan to the holders of the Series A Participating Redeemable Preferred Units of our Operating Partnership (the "Preferred OP units"). The funds were loaned on June 25, 2007 and bear interest at an annual rate of 4.85%, payable quarterly.

Equity in Earnings of Real Estate Ventures—The change in equity in earnings of real estate ventures for the year ended December 31, 2007 relates to increases in income at the properties owned by the real estate ventures. The increases were partially offset by the losses on certain lease-up properties held in joint ventures.

Fair Value Adjustment of Obligation Associated with Preferred Partnership Units—This amount is a one-time adjustment that represents the change in fair value of the embedded derivative associated with the Preferred OP units issued in connection with the AAAAA Rent-a-Space acquisition between the original issuance of the Preferred OP units (June and August, 2007) and the completion of the amendment to the agreement that was signed on September 28, 2007.

Impairment of Investments Available-for-Sale—As of December 31, 2007, we had a $24,460 par value investment in ARS. Due to the uncertainty in the credit markets, the auctions related to ARS held by us have failed, causing the liquidity and the fair value of these investments to be impaired. As a result, we recorded a $1,233 other-than-temporary impairment charge and a $1,415 temporary impairment charge to reduce the carrying value of the ARS to an estimated fair value of $21,812.

Minority Interest—Operating Partnership—Income allocated to the Operating Partnership represents 6.97% (including the Preferred OP units) of the net income for the year ended December 31, 2007. The amount allocated to minority interest was higher than in the prior year due mainly to higher net income in 2007 than in 2006.

Minority Interest—Other—Income allocated to the other minority interest represents the losses allocated to partners in consolidated joint ventures on two properties that were in lease-up during 2007.

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005 (Dollars in thousands)

Overview

Results for the year ended December 31, 2006 included the operations of 567 properties (219 of which were consolidated and 348 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2005, which included operations of 546 properties (192 of which were consolidated and 354 of which were in joint ventures accounted for using the equity method). Results for both periods also included equity in earnings of real estate ventures, third-party management and franchise fees, acquisition fees and development fees.

Revenues

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

	Year ended December 31, 2006	Year ended December 31, 2005	$ Change	% Change
Revenues:				
Property rental	$ 170,993	$ 120,640	$ 50,353	41.7%
Management and franchise fees	20,883	10,650	10,233	96.1%
Tenant insurance	4,318	1,882	2,436	129.4%
Development fees	272	992	(720)	(72.6)%
Other income	798	564	234	41.5%
Total revenues	$ 197,264	$ 134,728	$ 62,536	46.4%

Property Rental—The increase in property rental revenues consists of $30,481 associated with the acquisition of 61 wholly-owned properties in conjunction with the SUSA acquisition in July 2005, $12,170 associated with other acquisitions, and $1,922 from increases in occupancy at lease-up properties. The remainder of the increase was due to increases in rental rates at our stabilized properties.

Management and Franchise Fees—Our taxable REIT subsidiary, Extra Space Management, Inc., manages properties owned by our joint venture franchisees and third parties. Management fees generally represent 6.0% of cash collected from properties owned by third party franchisees and unconsolidated joint ventures. The increase in management fees is due mainly to fees associated with the SUSA acquisition which occurred in July 2005. Through this acquisition we obtained equity interests in joint ventures which owned over 330 properties. We obtained management contracts for these new joint venture properties, and also obtained over 50 new third party and franchise management contracts in conjunction with the SUSA acquisition.

Tenant Insurance—Tenant insurance revenue relates to a new tenant insurance program adopted in July 2005. This program was started in conjunction with the SUSA acquisition to replace SUSA's tenant insurance program. Insurance revenues are higher in 2006 as the program was in place for a full year in 2006 compared to a partial year in 2005.

Development Fees—The decrease in development fee revenue was due to the decreased volume of development relating to joint ventures in 2006 compared to prior years.

Expenses

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

	Year ended December 31, 2006	Year ended December 31, 2005	$ Change	% Change
Expenses:				
Property operations	$ 62,243	$ 45,963	$ 16,280	35.4%
Tenant insurance	2,328	1,023	1,305	127.6%
Unrecovered development and acquisition costs	269	302	(33)	(10.9)%
General and administrative	35,600	24,081	11,519	47.8%
Depreciation and amortization	37,172	31,005	6,167	19.9%
Total expenses	$ 137,612	$ 102,374	$ 35,238	34.4%

Property Operations—The increase in property operations expense in 2006 was primarily due to increases of $10,560 associated with the SUSA acquisition in July 2005 and $4,664 related to the 25 properties acquired throughout 2006 and other properties acquired in 2005. There were also increases in expenses of $1,056 at existing properties primarily due to increases in utilities, repairs and maintenance and property taxes.

Tenant Insurance—Tenant insurance expense for 2006 relates to a new tenant insurance program adopted in July 2005. This program was started in conjunction with the SUSA acquisition to replace SUSA's tenant insurance program. Tenant insurance expense is higher in 2006 as the tenant insurance program was in place for a full year in 2006, compared to a partial year in 2005.

General and Administrative—The significant increase in general and administrative expenses was due primarily to the increased costs associated with the management of the additional properties that have been added through acquisitions and new joint venture arrangements entered into in 2005 and 2006.

Depreciation and Amortization—The increase in depreciation and amortization expense is a result of additional properties acquired from the SUSA acquisition and other acquisitions completed throughout 2005 and 2006.

Other Income and Expenses

The following table sets forth information on other income and expenses for the years indicated:

	Year ended December 31,			
	2006	**2005**	**$ Change**	**% Change**
Interest expense	$ (50,953)	$ (42,549)	$ (8,404)	19.8%
Interest income	2,469	1,625	844	51.9%
Equity in earnings of real estate ventures	4,693	3,170	1,523	48.0%
Minority interest—Operating Partnership	(985)	434	(1,419)	(327.0)%
Total other expense	$ (44,776)	$ (37,320)	$ (7,456)	20.0%

Interest Expense—The increase in interest expense for the year ended December 31, 2006 was due primarily to $9,469 of interest expense on the mortgage loans on the 61 properties acquired in connection with the SUSA acquisition. The increase was offset by lower interest costs on corporate borrowings and existing property debt. Capitalized interest during the years ended December 31, 2006 and 2005 was $3,232 and $460, respectively.

Interest Income—Interest income earned in 2006 was mainly the result of the interest earned on the gross proceeds of $205,275 received from the sale of stock. The interest income earned in 2005 was primarily earned on the notes receivable that were obtained as part of the SUSA acquisition. These notes receivable were paid down to $0 as of December 31, 2006.

Equity in Earnings of Real Estate Ventures—The increase in equity in earnings of real estate ventures is due primarily to our purchase of new equity interests in joint ventures in July 2005.

Minority Interest—Operating Partnership—Income allocated to the Operating Partnership represents 6.21% of the net income for the year ended December 31, 2006. The amount allocated to minority interest was higher than in the prior year due mainly to the fact that we recorded net income in 2006, and recorded a net loss in 2005.

FUNDS FROM OPERATIONS (Dollars in thousands, except share data)

FFO provides relevant and meaningful information about our operating performance that is necessary, along with net income (loss) and cash flows, for an understanding of our operating results. We believe FFO is a meaningful disclosure as a supplement to net earnings (loss) because net earnings (loss) assumes that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. We believe that the values of real estate assets fluctuate due to market conditions and 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 (loss) computed in accordance with U.S. generally accepted accounting principles ("GAAP"), excluding gains or losses on sales of operating properties, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that to further understand our performance, FFO should be considered along with the reported net income (loss) and cash flows in accordance with GAAP, as presented in the consolidated financial statements.

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

	For the Year Ended December 31,		
	2007	2006	2005
Net income (loss) attributable to common stockholders	$ 34,584	$ 14,876	$ (4,966)
Adjustments:			
Real estate depreciation	33,779	27,331	20,105
Amortization of intangibles	4,159	8,371	10,345
Joint venture real estate depreciation and amortization	4,039	4,773	2,186
Joint venture loss on sale of properties	43	—	—
Fair value adjustment of obligation associated with Preferred Operating Partnership units	(1,054)	—	—
Distributions paid on Preferred Operating Partnership Units	(1,438)	—	—
Income (loss) allocated to Operating Partnership minority interest	2,508	985	(434)
Funds from operations	$ 76,621	$ 56,336	$ 27,236
Weighted average number of shares—diluted	70,503,668	59,291,749	38,764,597

SAME-STORE STABILIZED PROPERTY RESULTS (Dollars in thousands)

We consider our same-store stabilized portfolio to consist of only those properties which were wholly-owned at the beginning and at the end of the applicable periods presented and 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.

	Three Months Ended December 31,			Year Ended December 31,			Year Ended December 31,		
	2007	2006	Percent Change	2007	2006	Percent Change	2006	2005	Percent Change
Same-store rental revenues	$ 40,096	$ 39,016	2.8%	$ 159,070	$ 153,076	3.9%	$ 83,911	$ 78,683	6.6%
Same-store operating expenses	13,235	13,097	1.1%	54,726	54,014	1.3%	28,596	27,435	4.2%
Same-store net operating income	26,861	25,919	3.6%	104,344	99,062	5.3%	55,315	51,248	7.9%
Non same-store rental revenues	16,387	6,100	168.6%	47,245	17,917	163.7%	87,082	41,957	107.6%
Non same-store operating expenses	5,980	2,543	135.2%	18,344	8,229	122.9%	33,647	18,528	81.6%
Total rental revenues	56,483	45,116	25.2%	206,315	170,993	20.7%	170,993	120,640	41.7%
Total operating expenses	19,215	15,640	22.9%	73,070	62,243	17.4%	62,243	45,963	35.4%
Same-store square foot occupancy as of quarter end	84.1%	85.1%		84.1%	85.1%		85.5%	85.4%	
Properties included in same-store	181	181		181	181		103	103	

Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006

The increase in same-store rental revenues was primarily due to increased rental rates to new and existing tenants and our ability to maintain occupancy. The increase in same-store operating expenses was due to an increase in repairs and maintenance, insurance and property taxes.

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005

The increase in same-store rental revenues was primarily due to increased rental rates to new and existing tenants and our ability to maintain occupancy. The increase in same-store operating expenses was primarily due to an increase in property taxes and utilities.

CCS and CCU Property Performance:

Upon the achievement of certain levels of net operating income with respect to 14 of our pre-stabilized properties, our CCSs and our Operating Partnership's CCUs will convert into additional shares of common stock and OP units, respectively, beginning with the quarter ending March 31, 2006. As of December 31, 2007, there were 1,443,342 CCS/CCUs converted to shares and OP Units. Based on the performance of the properties as of December 31, 2007, an additional 455,152 CCS/CCUs became eligible for conversion. The board of directors approved the conversion of these CCS/CCUs on February 1, 2008 as per the Company's charter, and the shares and OP units were issued on February 5, 2008.

The table below outlines the performance of the properties for the three months and years ended December 31, 2007 and 2006, respectively and for the years ended December 31, 2006 and 2005.

	Three Months Ended December 31,			Year Ended December 31,			Year Ended December 31,		
	2007	2006	Percent Change	2007	2006	Percent Change	2006	2005	Percent Change
CCS/CCU rental revenues	$ 3,143	$ 2,824	11.3%	$ 12,089	$ 10,433	15.9%	$ 10,602	$ 8,432	25.7%
CCS/CCU operating expenses	1,066	1,244	(14.3)%	5,039	5,439	(7.4)%	5,440	5,478	(0.7)%
CCS/CCU net operating income	2,077	1,580	31.5%	7,050	4,994	41.2%	5,162	2,954	74.7%
Non CCS/CCU rental revenues	53,340	42,292	26.1%	194,226	160,560	21.0%	160,391	112,208	42.9%
Non CCS/CCU operating expenses	18,149	14,396	26.1%	68,031	56,804	19.8%	56,803	40,485	40.3%
Total rental revenues	56,483	45,116	25.2%	206,315	170,993	20.7%	170,993	120,640	41.7%
Total operating expenses	19,215	15,640	22.9%	73,070	62,243	17.4%	62,243	45,963	35.4%
CCS/CCU square foot occupancy as of quarter end	77.6%	74.1%		77.6%	74.1%		74.1%	69.9%	
Properties included in CCS/CCU	14	14		14	14		14	14	

Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006

The increase in revenues was primarily due to increased rental rates to new and existing tenants and increases in occupancy. The decrease in same-store operating expenses was due to a property tax adjustment from prior years.

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005

The increase in same-store rental revenues was primarily due to increased rental rates to new and existing tenants and increases in occupancy.

CASH FLOWS (Dollars in thousands)

Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006

Cash flows provided by operating activities were $101,332 and $76,885 for the years ended December 31, 2007 and 2006, respectively. The increase in cash provided by operating activities was due to the addition through acquisition of new stabilized properties. In addition, the increase was also a result of the collection of receivables from affiliated joint ventures and related parties and the timing of payments of accounts payable and accrued expenses as a result of normal operations.

Cash used in investing activities was $253,579 and $239,778 for the years ended December 31, 2007 and 2006, respectively. The increase in 2007 is primarily the result of the additional cash being used to fund acquisition and development activities.

Cash provided by financing activities was $98,823 and $205,041 for the years ended December 31, 2007 and 2006, respectively. The decrease in 2007 was due to an increase in net borrowings and notes payable (net of principal payments) of $207,795 that was offset by a loan to a Preferred Unit holder of $100,000 in 2007. Additionally, net proceeds from share issuances of $194,474 were received in 2006 compared to $0 in 2007.

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005

Cash flows provided by operating activities were $76,885 and $17,463 for the years ended December 31, 2006 and 2005, respectively. The increase in cash provided by operating activities was due to the addition of new stabilized properties including properties added as a result of the SUSA acquisition. In addition, the increase was also a result of the collection of receivables from affiliated joint ventures and related parties as a result of normal operations.

Cash used in investing activities was $239,778 and $614,834 for the years ended December 31, 2006 and 2005, respectively. The decrease in 2006 is primarily the result of the $530,972 of cash paid in the acquisition of Storage USA in 2005 offset by the increase in the acquisition of other real estate assets in 2006 versus 2005.

Cash provided by financing activities was $205,041 and $601,695 for the years ended December 31, 2006 and 2005, respectively. The decrease consisted primarily of additional borrowings in 2006 of $165,666 versus $808,936 in 2005, and net proceeds from share issuances of $194,474 in 2006 versus $271,537 in 2005. This was offset by repayments on borrowings of $98,866 in 2006, compared to $431,255 in 2005. In addition, the Company also paid $50,005 in dividends to common stockholders in 2006, compared to $34,585 in 2005.

2007 OPERATIONAL SUMMARY

Our 2007 operating results were positive and reflected solid operating fundamentals and operational efficiency with increases in both revenues and net operating income. On a same-store basis, revenue increased 3.9% and NOI increased 5.3%. Same-store expense increases were minimal, with a year-on-year increase of a modest 1.3%. Revenue increases were driven mostly by rate growth to existing tenants, as year-end same-store occupancy decreased to 84.1% as compared to 85.1% the previous year.

The markets of Chicago, Columbus, Dallas and Houston were top performers in year-on-year revenue growth at stabilized properties. The markets of San Francisco/Oakland and Detroit also realized solid year-on-year increases in revenues.

Markets performing below the portfolio average in year-on-year revenue growth included Atlanta, Las Vegas, Sacramento and Phoenix. Properties in markets throughout Florida continue to perform below the portfolio average, though the occupancy began to stabilize during the three months ended December 31, 2007.

OUTLOOK

Though the level of growth experienced in 2007 was less than in 2006, we continue to see strength in self-storage fundamentals in many of our core markets. We believe that the ability to increase revenues in 2008 over levels achieved in 2007 exists, as field surveys show low levels of new supply and our internal customer research indicates continued demand for the self-storage product type.

We anticipate continued competition from all operators, both public and private, in all of the markets in which we operate. However, we believe that the quality and location of our property portfolio, our scale as the second largest operator of self storage, our revenue management systems, and experienced team give us the ability to perform well in various competitive and economic environments.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007, we had approximately $17.4 million available in cash and cash equivalents. We intend to use this cash to purchase additional self-storage properties, to fund development and to fund operations in the first two quarters of 2008. 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. Therefore, it is unlikely that we will have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

At December 31, 2007, we had $24.5 million par value invested in ARS which are classified as available-for-sale investments. Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism allows existing investors to rollover their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par. Our investments are in non-mortgage-backed ARS, are insured against loss of principal and interest and have credit ratings of AAA—AA. As a result of unsuccessful auctions, the interest rate is paid at LIBOR plus 125 or 150 basis points and the liquidity of these investments has been diminished. Based on our ability to access our cash and cash equivalents, our expected operating cash flows, and our other sources of cash including our credit line, we do not anticipate that the lack of liquidity on these investments will affect our ability to operate our business. Related to these failed auctions, we recorded a $1.2 million other-than-temporary impairment charge and a $1.4 million temporary impairment charge to reduce the value of our investment in ARS to an estimated fair value of $21.8 million.

On October 19, 2007, we entered into a new $100.0 million revolving line of credit (the "Credit Line") that matures October 31, 2010. We intend to use the proceeds of the Credit Line for general corporate purposes. The Credit Line has an interest rate of between 100 and 205 basis points over LIBOR, depending on certain of our financial ratios. The Credit Line is collateralized by mortgages on certain real estate assets. As of December 31, 2007, the Credit Line had $100.0 million of capacity based on the assets collateralizing the Credit Line. No amounts were outstanding on the Credit Line at December 31, 2007.

On October 4, 2004, we entered into a reverse interest rate swap (the "Swap Agreement") with U.S. Bank National Association, relating to our existing $61.8 million fixed rate mortgage with Wachovia Bank, which is due in 2009. Pursuant to the Swap Agreement, we will receive fixed interest payments of 4.3% and pay variable interest payments based on the one-month LIBOR plus 0.7% on a notional amount of $61.8 million. There were no origination fees or other up front costs incurred by us in connection with the Swap Agreement.

As of December 31, 2007, we had approximately $1.3 billion of debt, resulting in a debt to total capitalization ratio of 56.6%. As of December 31, 2007, the ratio of total fixed rate debt and other instruments to total debt was 90.5%. The weighted average interest rate of the total of fixed and variable rate debt at December 31, 2007 was 5.1%.

We expect to fund our short-term liquidity requirements, including operating expenses, recurring capital expenditures, dividends to stockholders, distributions to holders of OP units and interest on our outstanding indebtedness out of our operating cash flow, cash on hand and borrowings under our Credit Line.

Long-Term Liquidity Needs

Our long-term liquidity needs consist primarily of distributions to stockholders, new facility development, property acquisitions, principal payments under our borrowings and non-recurring capital expenditures. We do not expect that our operating cash flow will be sufficient to fund our long term liquidity needs and instead expect to fund such needs out of additional borrowings, joint ventures with third parties, and from the proceeds of public and private offerings of equity and debt. We may also use OP Units as currency to fund acquisitions from self-storage owners who desire tax-deferral in their exiting transactions.

OFF-BALANCE SHEET ARRANGEMENTS

Except as disclosed in the notes to our 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 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 (Dollars in thousands)

The following table sets forth information on payments due by period at December 31, 2007:

	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases	$ 62,274	$ 5,444	$ 10,194	$ 8,099	$ 38,537
Notes payable, exchangeable senior notes and notes payable to trusts					
Interest	638,677	67,357	104,832	81,869	384,619
Principal	1,319,771	43,498	415,012	83,324	777,937
Total contractual obligations	$ 2,020,722	$ 116,299	$ 530,038	$ 173,292	$ 1,201,093

As of December 31, 2007, the weighted average interest rate for all fixed rate loans was 5.0%, and the weighted average interest rate on all variable rate loans was 5.9%.

FINANCING STRATEGY

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

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

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

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.

RECENT ACCOUNTING PRONOUNCEMENTS

Emerging Issues Task Force ("EITF") Topic D-109, "*Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133*" ("Topic D-109"), discussed at the March 15, 2007 EITF meeting, was effective at the beginning of the first fiscal quarter beginning after June 15, 2007. Topic D-109 provides the SEC staff's view as to how one must evaluate whether a preferred stock "host" contract is a debt host or an equity host. It states that the determination of the nature of the host contract for a hybrid financial instrument (that is, whether the nature of the host contract is more akin to debt or to equity) issued in the form of a share should be based on a consideration of economic characteristics and risks. The SEC staff believes that the consideration of the economic characteristics and risks of the host contract should be based on all the stated and implied substantive terms and features of the hybrid financial instrument. This may represent a change from the way these instruments were analyzed in the past.

We elected to early adopt Topic D-109 which specifically relates to the issuance of Preferred OP Units in connection with the AAAAA Rent-A-Space acquisition that was completed during the quarter ended June 30, 2007.

In September 2006, the FASB issued Statement No. 157, "*Fair Value Measurements*" ("FAS 157"). FAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. 157-2, "*Effective Date of FASB Statement No. 157*" (the "FSP"). The FSP amends FAS 157 to delay the effective date for FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, the FSP defers the effective date of FAS 157 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We have not quantified the impact that the adoption of FAS 157 will have on our financial statements.

In February 2007, the FASB issued Statement No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("FAS 159"). Under FAS 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. This statement is effective for fiscal years beginning after November 15, 2007. We have not quantified the impact that the adoption of FAS 159 will have on our financial statements.

In December 2007, the FASB issued revised Statement No. 141, "*Business Combinations*" ("FAS 141(R)"). FAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the assets acquired and liabilities assumed. Generally, assets acquired and liabilities assumed in a transaction will be recorded at the acquisition-date fair value with limited exceptions. FAS 141(R) will also change the accounting treatment and disclosure for certain specific items in a business combination. FAS 141(R) applies proactively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning on or after December 15, 2008. We will assess the impact of FAS 141(R) if and when a future acquisition occurs. However, the application of FAS 141(R) will result in a significant change in accounting for future acquisitions after the effective date.

In December 2007, the FASB issued Statement No. 160, "*Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51"* ("FAS 160"). FAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 is effective for fiscal years beginning on or after December 15, 2008. We do not currently expect the adoption of FAS 160 to have a material impact on our financial statements.

Item 7A. 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 December 31, 2007, we had approximately $1.3 billion in total debt of which $124.9 million was subject to variable interest rates (including the $61.8 million on which we have the reverse interest rate swap). If LIBOR were to increase or decrease by 100 basis points, the increase or decrease in interest expense on the variable rate debt would increase or decrease future earnings and cash flows by approximately $1.2 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 value of fixed rate notes payable and notes payable to trusts at December 31, 2007 was $1.3 billion. The carrying value of these fixed rate notes payable at December 31, 2007 was $1.2 billion.

Item 8. Financial Statements and Supplementary Data

EXTRA SPACE STORAGE INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SCHEDULES

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

Reports of Independent Registered Public Accounting Firms

To the Board of Directors and Stockholders of Extra Space Storage Inc.

We have audited the accompanying consolidated balance sheets of Extra Space Storage Inc. and subsidiaries ("the Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the index at Item 8. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation as of January 1, 2006, in accordance with the guidance provided in Statements of Financial Accounting Standards No. 123(R) "Share-Based Payments."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 28, 2008

Extra Space Storage Inc.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	December 31, 2007	December 31, 2006
Assets:		
Real estate assets:		
Net operating real estate assets	$ 1,791,377	$ 1,382,055
Real estate under development	49,945	35,336
Net real estate assets	1,841,322	1,417,391
Investments in real estate ventures	95,169	88,115
Cash and cash equivalents	17,377	70,801
Investments available-for-sale	21,812	—
Restricted cash	34,449	44,282
Receivables from related parties and affiliated real estate joint ventures	7,386	15,880
Other assets, net	36,560	33,356
Total assets	$ 2,054,075	$ 1,669,825
Liabilities, Minority Interests and Stockholders' Equity:		
Notes payable	$ 950,181	$ 828,584
Notes payable to trusts	119,590	119,590
Exchangeable senior notes	250,000	—
Line of credit	—	—
Accounts payable and accrued expenses	31,346	25,704
Other liabilities	18,055	17,234
Total liabilities	1,369,172	991,112
Commitments and contingencies		
Minority interest represented by Preferred Operating Partnership units, net of $100,000 note receivable (Note 15)	30,041	—
Minority interest in Operating Partnership	35,135	34,841
Other minority interests	(194)	317
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 and 200,000,000 shares authorized and 65,784,274 and 64,167,098 shares issued and outstanding at December 31, 2007 and December 31, 2006 respectively	658	642
Paid-in capital	826,026	822,181
Other comprehensive deficit	(1,415)	—
Accumulated deficit	(205,348)	(179,268)
Total stockholders' equity	619,921	643,555
Total liabilities, minority interests and stockholders' equity	$ 2,054,075	$ 1,669,825

See accompanying notes.

Extra Space Storage Inc.

Consolidated Statements of Operations

(Dollars in thousands, except share and per share data)

	For the Year Ended December 31,		
	2007	2006	2005
Revenues:			
Property rental	$ 206,315	$ 170,993	$ 120,640
Management and franchise fees	20,598	20,883	10,650
Tenant insurance	11,049	4,318	1,882
Development fees	357	272	992
Other income	547	798	564
Total revenues	238,866	197,264	134,728
Expenses:			
Property operations	73,070	62,243	45,963
Tenant insurance	4,710	2,328	1,023
Unrecovered development and acquisition costs	765	269	302
General and administrative	36,722	35,600	24,081
Depreciation and amortization	39,801	37,172	31,005
Total expenses	155,068	137,612	102,374
Income before interest, Preferred Operating Partnership, equity in earnings of real estate ventures, impairment and minority interests	83,798	59,652	32,354
Interest expense	(61,015)	(50,953)	(42,549)
Interest income	7,925	2,469	1,625
Interest income on note receivable from Preferred Unit holder	2,492	—	—
Equity in earnings of real estate ventures	5,300	4,693	3,170
Fair value adjustment of obligation associated with Preferred Operating Partnership units (Note 15)	1,054	—	—
Impairment of investments available-for-short	(1,233)	—	—
Minority interest—Operating Partnership	(2,508)	(985)	434
Minority interests—other	281	—	—
Net income (loss)	36,094	14,876	(4,966)
Fixed distribution paid to Preferred Operating Partnership unit holder (Note 15)	(1,510)	—	—
Net income (loss) attributable to common stockholders	$ 34,584	$ 14,876	$ (4,966)
Net income (loss) per common share			
Basic	$ 0.53	$ 0.27	$ (0.14)
Diluted	$ 0.53	$ 0.27	$ (0.14)
Weighted average number of shares			
Basic	64,688,741	54,998,935	35,481,538
Diluted	70,503,668	59,291,749	35,481,538
Cash dividends paid per common share	$ 0.93	$ 0.91	$ 0.91

See accompanying notes.

Extra Space Storage Inc.

Consolidated Statements of Stockholders' Equity

(Dollars in thousands, except share data)

	Common Stock Shares	Common Stock Par Value	Paid-in Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Deficit	Total Stockholders' Equity
Balances at December 31, 2004	31,169,950	$ 312	$ 347,883	$ —	$ (104,588)	$ —	$ 243,607
Issuance of common stock, net of offering costs	20,000,000	200	271,337	—	—	—	271,537
Conversion of Operating Partnership units to common stock	400,000	4	3,923	—	—	—	3,927
Issuance of common stock upon the exercise of options	5,845	—	7	—	—	—	7
Restricted stock grants issued	190,000	2	2,973	(2,975)	—	—	—
Amortization of deferred stock compensation	—	—	—	601	—	—	601
Net loss	—	—	—	—	(4,966)	—	(4,966)
Dividends paid on common stock at $0.91 per share	—	—	—	—	(34,585)	—	(34,585)
Balances at December 31, 2005	51,765,795	518	626,123	(2,374)	(144,139)	—	480,128
Reclassification of deferred compensation upon adoption of SFAS 123R	—	—	(2,374)	2,374	—	—	—
Issuance of common stock, net of offering costs	12,075,000	121	194,780	—	—	—	194,901
Issuance of common stock upon the exercise of options	98,003	1	545	—	—	—	546
Issuance of common stock to board members	12,000	—	—	—	—	—	—
Restricted stock grants issued	49,800	—	—	—	—	—	—
Restricted stock grants cancelled	(33,500)	—	—	—	—	—	—
Compensation expense related to stock-based awards	—	—	1,725	—	—	—	1,725
Conversion of Operating Partnership units to common stock	200,000	2	1,809	—	—	—	1,811
Other adjustments	—	—	(427)	—	—	—	(427)
Net income	—	—	—	—	14,876	—	14,876
Dividends paid on common stock at $0.91 per share	—	—	—	—	(50,005)	—	(50,005)
Balances at December 31, 2006	64,167,098	642	822,181	—	(179,268)	—	643,555
Issuance of common stock upon the exercise of options	126,801	1	1,720	—	—	—	1,721
Restricted stock grants issued	120,729	1	—	—	—	—	1
Restricted stock grants cancelled	(3,082)	—	—	—	—	—	—
Conversion of Contingent Conversion Shares to common stock	1,372,728	14	—	—	—	—	14
Compensation expense related to stock-based awards	—	—	2,125	—	—	—	2,125
Fixed distribution paid to Preferred Operating Partnership unit holder	—	—	—	—	(1,510)	—	(1,510)
Change in fair value of auction rate securities	—	—	—	—	—	(1,415)	(1,415)
Net income	—	—	—	—	36,094	—	36,094
Dividends paid on common stock at $0.93 per share	—	—	—	—	(60,664)	—	(60,664)
Balances at December 31, 2007	65,784,274	$ 658	$ 826,026	$ —	$ (205,348)	$ (1,415)	$ 619,921

See accompanying notes.

Extra Space Storage Inc.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	For the Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income (loss)	$ 36,094	$ 14,876	$ (4,966)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	39,801	37,172	31,005
Amortization of deferred stock compensation	—	—	601
Amortization of deferred financing costs	3,309	2,365	2,692
Fair value adjustment of obligation associated with Preferred Operating Partnership units (Note 15)	(1,054)	—	—
Impairment of investments available-for-sale	1,233	—	—
Stock compensation expense	2,125	1,725	—
Gain (loss) allocated to minority interests	2,227	985	(434)
Distributions from operations of real estate ventures in excess of earnings	3,946	5,559	6,356
Changes in operating assets and liabilities:			
Receivables from related parties	5,905	7,803	(18,691)
Other assets	4,589	3,029	(1,129)
Accounts payable and accrued expenses	5,642	(2,421)	2,309
Other liabilities	(2,485)	5,792	(280)
Net cash provided by operating activities	101,332	76,885	17,463
Cash flows from investing activities:			
Acquisition of real estate assets	(183,690)	(174,305)	(79,227)
Investments in trust preferred securities	—	—	(3,590)
Acquisition of Storage USA	—	—	(530,972)
Development and construction of real estate assets	(45,636)	(34,782)	(20,204)
Proceeds from sale of real estate assets	1,999	728	—
Investments in real estate ventures	(10,838)	(5,660)	(395)
Return of capital distributions of real estate ventures	284	—	—
Net purchases of investments available-for-sale	(24,460)	—	—
Change in restricted cash	9,833	(25,876)	(4,110)
Principal payments received on notes receivable	—	1,811	25,938
Purchase of equipment and fixtures	(1,071)	(1,694)	(2,274)
Net cash used in investing activities	(253,579)	(239,778)	(614,834)

See accompanying notes.

Consolidated Statements of Cash Flows (Continued)

(Dollars in thousands)

	For the Year Ended December 31,		
	2007	2006	2005
Cash flows from financing activities:			
Proceeds from exchangeable senior notes	250,000	—	—
Proceeds from notes payable, notes payable to trusts and line of credit	56,759	165,666	808,936
Principal payments on notes payable and line of credit	(32,164)	(98,866)	(431,255)
Deferred financing costs	(8,867)	(3,393)	(9,267)
Loan to Preferred OP unit holder	(100,000)	—	—
Minority interest investments	—	92	225
Redemption of Operating Partnership units held by minority interest	(874)	—	(895)
Proceeds from issuance of common shares, net	—	194,474	271,537
Net proceeds from exercise of stock options	1,721	546	7
Dividends paid on common stock	(60,664)	(50,005)	(34,585)
Distributions to Operating Partnership units held by minority interest	(7,088)	(3,473)	(3,008)
Net cash provided by financing activities	98,823	205,041	601,695
Net increase (decrease) in cash and cash equivalents	(53,424)	42,148	4,324
Cash and cash equivalents, beginning of the period	70,801	28,653	24,329
Cash and cash equivalents, end of the period	$ 17,377	$ 70,801	$ 28,653
Supplemental schedule of cash flow information			
Interest paid, net of amounts capitalized	$ 55,132	$ 47,683	$ 37,465
Supplemental schedule of noncash investing and financing activities:			
Acquisitions:			
Real estate assets acquired (including intangible assets)	$ 231,037	$ 27,091	$ 54,761
Notes payable assumed	(95,202)	(10,878)	(10,260)
Notes receivable	—	(10,298)	(21,680)
Preferred Operating Partnership units issued as consideration	(131,499)	—	—
Investment in real estate ventures	(502)	(2,785)	—
Minority interest in Operating Partnership	(3,834)	(3,130)	(22,821)
Conversion of Operating Parntership Units held by minority interests for common stock	—	1,811	3,927
Restricted stock grants to employees	—	—	2,975
Temporary impairment of investments available-for-sale	(1,415)	—	—

See accompanying notes.

(Dollars in thousands, except share and per share data)

1. DESCRIPTION OF BUSINESS

Business

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 and develop self-storage facilities located throughout the United States. The Company continues the business of Extra Space Storage LLC and its subsidiaries (the "Predecessor"), which had engaged in the self-storage business since 1977. The Company's interest in its properties is held through its operating partnership, Extra Space Storage LP (the "Operating Partnership"), which was formed on May 5, 2004. The Company's primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). 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 December 31, 2007, the Company had direct and indirect equity interests in 606 storage facilities located in 33 states, and Washington, D.C. In addition, the Company managed 45 properties for franchisees or third parties bringing the total number of properties which it owns and/or manages to 651.

The Company operates in two distinct segments: (1) property management, acquisition and development; and (2) rental operations. 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.

Initial Public Offering

On August 17, 2004, the Company completed its initial public offering (the "Offering") of 20,200,000 shares of common stock, with proceeds to the Company of $234,825, net of offering costs of $17,675. As part of the offering, the Company granted the underwriters the right to purchase an additional 3,030,000 shares within 30 days after the Offering to cover over-allotments. On September 1, 2004, the underwriters exercised their right and purchased 3,030,000 shares of common stock with proceeds to the Company of $35,224, net of offering costs of $2,651. The Company also paid additional offering costs of $5,574 as part of the Offering.

In connection with the Offering, the existing holders of Class A, Class B, Class C and Class E Units in the Predecessor exchanged these units for an aggregate of 7,939,950 shares of common stock, 1,608,437 Operating Partnership ("OP") units, 3,888,843 contingent conversion shares ("CCSs"), 200,046 contingent conversion units ("CCUs") and $18,885 in cash. As a result of this exchange, the Predecessor became a wholly-owned subsidiary of the Operating Partnership. As of December 31, 2007, the Operating Partnership was a 92.88% subsidiary of the Company. The transaction did not result in a change in the carrying value of the Predecessor's assets and liabilities because the exchange was accounted for at historical cost as a transfer of assets between companies under common control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly or majority owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company follows FASB Interpretation No. 46R, "*Consolidation of Variable Interest Entities*" ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIEs"). Under FIN 46R, arrangements that are not controlled through voting or similar rights are accounted for as VIEs. An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

Under FIN 46R, a VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity's equity holders as a group either: (a) lack direct or indirect ability to make decisions about the entity through voting or similar rights, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE pursuant to FIN 46R, the enterprise that is deemed to absorb a majority of the expected losses or receive a majority of expected residual returns of the VIE is considered the primary beneficiary and must consolidate the VIE.

Based on the provisions of FIN 46R, the Company has concluded that under certain circumstances when the Company (i) enters into option agreements for the purchase of land or facilities from an entity and pays a non-refundable deposit, or (ii) enters into arrangements for the formation of joint ventures, a VIE may be created under condition (ii) (b) or (c) of the previous paragraph. For each VIE created, the Company has considered expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46R. If the Company is determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated with the Company's financial statements.

The Company's investments in real estate joint ventures, where the Company has significant influence, but not control and joint ventures which are VIEs in which the Company is not the primary beneficiary, are recorded under the equity method of accounting on the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate Assets

Real estate assets are stated at cost, less accumulated depreciation. Direct and allowable internal costs associated with the development, construction, renovation, and improvement of real estate assets are capitalized. Interest, property taxes, and other costs associated with development incurred during the construction period are capitalized. Capitalized interest during the years ended December 31, 2007, 2006 and 2005 was $4,380, $3,232, and $460, respectively.

Expenditures for maintenance and repairs are charged to expense as incurred. Major replacements and betterments that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between five and 39 years.

In connection with the Company's acquisition of properties, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values. The Company measures the value of tenant relationships based on the Company's experience with turnover in its facilities. The Company amortizes to expense the tenant relationships on a straight-line basis over the average period that a tenant is expected to utilize the facility (currently estimated to be 18 months).

Intangible lease rights represent: (1) purchase price amounts allocated to leases on two properties that cannot be classified as ground or building leases; these rights are amortized to expense over the life of the leases; and (2) intangibles related to ground leases on four properties that were acquired in 2007. These ground leases were assumed by the Company at rates that were lower and/or higher than the current market rates for similar leases. The value associated with these assumed leases were recorded as intangibles, which will be amortized over the lease terms.

Evaluation of Asset Impairment

Long lived assets held for use are evaluated by the Company for impairment when events or circumstances indicate that there may be an impairment. When such an event occurs, the Company compares the carrying value of these 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 asset exceeds the undiscounted future net operating cash flows attributable to the asset. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset. Management has determined no property was impaired and no impairment charges have been recognized for the years ended December 31, 2007, 2006 and 2005.

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 for sale is less than the net carrying value of the assets, then a valuation allowance is established. The operations of assets held for

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

sale or sold during the period are presented as discontinued operations for all periods presented. Management has determined no property was held for sale at December 31, 2007.

Investments in Real Estate Ventures

The Company's investments in real estate joint ventures, where the Company has significant influence, but not control and joint ventures which are VIEs in which the Company is not the primary beneficiary, are recorded under the equity method of accounting in the accompanying consolidated financial statements.

Under the equity method, the Company's investment in real estate ventures is stated at cost and adjusted for the Company's share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on the Company's ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, the Company follows the "look through" approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture's sale of assets) in which case it is reported as an investing activity.

Management assesses whether there are any indicators that the value of the Company's investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate that there may be an 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 of the investment over the fair value of the investment. No impairment charges were recognized for the years ended December 31, 2007, 2006 and 2005.

Cash and Cash Equivalents

The Company's cash is deposited with financial institutions located throughout the United States of America and at times may exceed federally insured limits. The Company considers all highly liquid debt instruments with a maturity date of three months or less to be cash equivalents.

Investments Available-for-Sale

The Company accounts for its investments in debt and equity securities according to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires securities classified as "available-for-sale" to be stated at fair value. Adjustments to fair value of available-for-sale securities are recorded as a component of other comprehensive income. A decline in the fair value of investment securities below cost, that is deemed to be other than temporary, results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. The Company classifies its investments in auction rate securities as investments available-for-sale in the accompanying balance sheet. These investments are carried at fair value with temporary unrealized gains and losses

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

included in accumulated other comprehensive deficit. The estimation process for fair valuing the investments included consideration of such factors as issuer and insurer credit rating, comparable market data, if available, credit enhancement structures, projected yields, discount rates and terminal periods.

Restricted Cash

Restricted cash is comprised of escrowed funds deposited with financial institutions located in various states relating to earnest money deposits on potential acquisitions, real estate taxes, insurance, capital expenditures and lease liabilities.

Other Assets

Other assets consist primarily of equipment and fixtures, deferred financing costs, customer accounts receivable, investments in trusts, and prepaid expenses. Depreciation of equipment and fixtures is computed on a straight-line basis over three to seven years. Deferred financing costs are amortized to interest expense using the effective interest method over the terms of the respective debt agreements.

Derivative Instruments and Hedging Activities

SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended and interpreted, establishes accounting and reporting standards for derivative instruments and hedging activities. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in the statements of operations. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (loss), outside of earnings and subsequently reclassified to earnings when the hedged transaction affects earnings.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, investments available-for-sale, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable rate notes payable and other liabilities reflected in the consolidated balance sheets at December 31, 2007 and 2006 approximate fair value. The fair value of fixed rate notes payable and notes payable to trusts at December 31, 2007 and 2006 was $1.3 billion and $836.0 million, respectively. The carrying value of these fixed rate notes payable and notes payable to trusts at December 31, 2007 and 2006 was $1.2 billion and $863.0 million, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management And Use Of Financial Instruments

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is the risk of inability or unwillingness of tenants to make contractually required payments. Market risk is the risk of declines in the value of properties due to changes in rental rates, interest rates or other market factors affecting the value of properties held by the Company. As disclosed in Note 9, the Company has entered into a Swap Agreement to manage a portion of its interest rate risk.

Conversion of Operating Partnership Units

Conversions of Operating Partnership units to common stock, when converted under the original provisions of the agreement, are accounted for by reclassifying the underlying net book value of the units from minority interest to equity in accordance with Emerging Issues Task Force Issue No. 95-7, "*Implementation Issues Related to the Treatment of Minority Interest in Certain Real Estate Investment Trusts*."

Revenue and Expense Recognition

Rental revenues are recognized as earned based upon amounts that are currently due from tenants. Leases are generally on month-to-month terms. Prepaid rents are recognized on a straight-line basis over the term of the leases. Promotional discounts are recognized as a reduction to rental income over the promotional period. Late charges, administrative fees, merchandise sales and truck rentals are recognized in income when earned. Management and franchise fee revenues are recognized monthly as services are performed and in accordance with the terms of the management agreements. Tenant insurance premiums are recognized as revenues over the period of insurance coverage. Development and acquisition fee revenues are recognized as development costs are incurred. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities. Interest income is recognized as earned.

Property expenses, including utilities, property taxes, repairs and maintenance and other costs to manage the facilities are recognized as incurred. We accrue for property tax expense based upon estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

Real Estate Sales

The Company evaluates real estate sales for both sale recognition and profit recognition in accordance with the provisions of SFAS No. 66, "*Accounting for Sales of Real Estate*." In general, sales of real estate and related profits/losses are recognized when all consideration has changed hands and risks and rewards of ownership have been transferred. Certain types of continuing involvement preclude sale treatment and related profit recognition; other forms of continuing involvement allow for sale recognition but require deferral of profit recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Company incurs advertising costs primarily attributable to directory, direct mail, internet and other advertising. Direct response advertising costs are deferred and amortized over the expected benefit period determined to be 12 months. All other advertising costs are expensed as incurred. The Company recognized $5,047, $4,960, and $4,374 in advertising expense for the years ended December 31, 2007, 2006 and 2005, respectively.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). In order to maintain its qualification as a REIT, among other things, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to federal income tax with respect to that portion of its income which meets certain criteria and is distributed annually to the stockholders. The Company plans to continue to operate so that it meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to federal income tax. The Company is subject to certain state and local taxes. Provision for such taxes has been included in the Company's property operations expense in the consolidated statements of operations. For the year ended December 31, 2007, 32% (unaudited) of all distributions to stockholders qualify as a return of capital.

The Company has elected to treat one of its existing corporate subsidiaries as a taxable REIT subsidiary ("TRS"). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company accounts for income taxes in accordance with the provisions of FASB Statement No. 109, "*Accounting for Income Taxes*" ("FAS 109"). Under FAS 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. There were no material deferred tax assets or liabilities as of December 31, 2007 or 2006, and no material income tax provisions for the years ended December 31, 2007, 2006 or 2005.

The Company adopted the provisions of FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"* ("FIN 48"), an interpretation of FAS 109, on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, there were no material unrecognized tax benefits. At December 31, 2007, there were no material unrecognized tax benefits.

Interest and penalties related to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2007, the Company had no interest and penalties related to uncertain tax positions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "*Share-Based Payment*," ("SFAS 123R"), which requires the measurement and recognition of compensation expense for all share- based payment awards to employees and directors based on estimated fair values. SFAS 123R supersedes SFAS No. 123, "*Accounting for Stock-Based Compensation*" and Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25"). The Company adopted SFAS 123R using the modified prospective application method of adoption which requires the Company to record compensation cost related to non-vested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over their remaining service period with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS 123R and recognized on a straight line basis over the service periods of each award. The forfeiture rate, which is estimated at a weighted average of 20.65% of unvested options outstanding as of December 31, 2007, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

Prior to 2006, the Company accounted for stock-based compensation in accordance with APB 25 using the intrinsic value method, which did not require that compensation cost be recognized for the Company's stock options provided the option exercise price was established at 100% of the common stock fair value on the date of grant. Under APB 25, the Company was required to record expense over the vesting period for the value of restricted common stock granted. Prior to 2006, the Company provided pro forma disclosure amounts in accordance with SFAS No. 148, "*Accounting for Stock-Based Compensation—Transition and Disclosure*" ("SFAS 148"), as if the fair value method defined by SFAS 123 had been applied to its stock-based compensation.

Net Income (Loss) Per Share

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average common shares outstanding, less non-vested restricted stock. Diluted earnings (loss) per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued and is calculated using either the treasury stock or if-converted method. Potential common shares are securities (such as options, warrants, convertible debt, Contingent Conversion Shares ("CCS"), Contingent Conversion Units ("CCU"), 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 or loss is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per share, only potential common shares that are dilutive, those that reduce earnings per share, are included.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's Operating Partnership has $250.0 million of exchangeable senior notes issued and outstanding that also can potentially have a dilutive effect on its earnings per share calculations. The exchangeable senior notes are exchangeable by holders into shares of the Company's common stock under certain circumstances per the terms of the indenture governing the exchangeable senior notes. The exchangeable senior notes are not exchangeable unless the price of the Company's common stock is greater than or equal to 130% of the applicable exchange price for a specified period during a quarter, or unless certain other events occur. The exchange price was $23.45 per share at December 31, 2007, and could change over time as described in the indenture. The price of the Company's common stock did not exceed 130% of the exchange price for the specified period of time during the fourth quarter of 2007, therefore holders of the exchangeable senior notes may not elect to convert them during the first quarter of 2008.

The Company has irrevocably agreed to pay only cash for the accreted principal amount of the exchangeable senior notes relative to its exchange obligations, but has retained the right to satisfy the exchange obligations in excess of the accreted principal amount in cash and/or common stock. Though the Company has retained that right, FAS 128, "*Earnings Per Share*," (FAS 128) requires an assumption that shares will be used to pay the exchange obligations in excess of the accreted principal amount, and requires that those shares be included in the Company's calculation of weighted average common shares outstanding for the diluted earnings per share computation. No shares were included in the computation at December 31, 2007 because there was no excess over the accreted principal for the period.

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 as discussed in Note 15 and where the Company has stated the positive intent and ability to settle at least $115.0 million 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 $115.0 million is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by paragraph 29 of FAS 128.

For the years ended December 31, 2007, 2006, and 2005 options to purchase 287,240, 24,273 and 3,032,398 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

(Dollars in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	For the Year Ended December 31,		
	2007	2006	2005
Net income (loss) attributable to common stockholders	$ 34,584	$ 14,876	$ (4,966)
Add:			
Income allocated to minority interest—Preferred and Common Operating Partnership	2,508	985	—
Net income (loss) for diluted computations	$ 37,092	$ 15,861	$ (4,966)
Weighted average common shares oustanding:			
Average number of common shares outstanding—basic	64,688,741	54,998,935	35,481,538
Operating Partnership units	4,050,588	3,799,442	—
Preferred Operating Partnership units	989,980	—	—
Dilutive stock options, restricted stock and CCS/CCU conversions	774,359	493,372	—
Average number of common shares outstanding—diluted	70,503,668	59,291,749	35,481,538
Net income (loss) per common share			
Basic	$ 0.53	$ 0.27	$ (0.14)
Diluted	$ 0.53	$ 0.27	$ (0.14)

Recently Issued Accounting Standards

Emerging Issues Task Force ("EITF") Topic D-109, "*Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133*" ("Topic D-109"), discussed at the March 15, 2007 EITF meeting, was effective at the beginning of the first fiscal quarter beginning after June 15, 2007. Topic D-109 provides the SEC staff's view as to how one must evaluate whether a preferred stock "host" contract is a debt host or an equity host. It states that the determination of the nature of the host contract for a hybrid financial instrument (that is, whether the nature of the host contract is more akin to debt or to equity) issued in the form of a share should be based on a consideration of economic characteristics and risks. The SEC staff believes that the consideration of the economic characteristics and risks of the host contract should be based on all the stated and implied substantive terms and features of the hybrid financial instrument. This may represent a change from the way these instruments were analyzed in the past.

The Company elected to early adopt Topic D-109 which specifically relates to the issuance of Preferred OP Units in connection with AAAAA Rent-A-Space acquisition that was completed during the quarter ended June 30, 2007.

In September 2006, the FASB issued Statement No. 157, "*Fair Value Measurements*" ("FAS 157"). FAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. 157-2, "*Effective Date of FASB Statement No. 157*" (the "FSP"). The FSP amends FAS 157 to delay the effective date for FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, the FSP defers the effective date of FAS 157 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company has not quantified the impact that the adoption of FAS 157 will have on its financial statements.

In February 2007, the FASB issued Statement No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("FAS 159"). Under FAS 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. This statement is effective for fiscal years beginning after November 15, 2007. The Company has not quantified the impact that the adoption of FAS 159 will have on its financial statements.

In December 2007, the FASB issued revised Statement No. 141, "*Business Combinations*" ("FAS 141(R)"). FAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the assets acquired and liabilities assumed. Generally, assets acquired and liabilities assumed in a transaction will be recorded at the acquisition-date fair value with limited exceptions. FAS 141(R) will also change the accounting treatment and disclosure for certain specific items in a business combination. FAS 141(R) applies proactively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning on or after December 15, 2008. The Company will assess the impact of FAS 141(R) if and when a future acquisition occurs. However, the application of FAS 141(R) will result in a significant change in accounting for future acquisitions after the effective date.

In December 2007, the FASB issued Statement No. 160, "*Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51"* ("FAS 160"). FAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not currently expect the adoption of FAS 160 to have a material impact on its financial statements.

Reclassifications

Certain amounts in the 2006 and 2005 financial statements and supporting note disclosures have been reclassified to conform to the current year presentation. Such reclassifications did not impact previously reported net income (loss) or accumulated deficit.

(Dollars in thousands, except share and per share data)

3. REAL ESTATE ASSETS

Real estate assets at December 31, 2007 and 2006 are summarized as follows:

	December 31, 2007	December 31, 2006
Land	$ 464,624	$ 361,569
Buildings and improvements	1,420,235	1,085,269
Intangible assets—tenant relationships	32,173	25,436
Intangible lease rights	6,150	3,400
	1,923,182	1,475,674
Less: accumulated depreciation and amortization	(131,805)	(93,619)
Net operating real estate assets	1,791,377	1,382,055
Real estate under development	49,945	35,336
Net real estate assets	$ 1,841,322	$ 1,417,391

The Company amortizes to expense intangible assets—tenant relationships on a straight-line basis over the average period that a tenant utilizes the facility (18 months). The Company amortizes to expense the intangible lease rights over the terms of the related leases. Amortization related to the tenant relationships and lease rights was $4,250 and $8,371 for 2007 and 2006, respectively. The remaining balance of the unamortized lease rights will be amortized over the next 10 to 54 years.

4. BUSINESS ACQUISITION

To expand its business, on July 14, 2005, the Company, through its subsidiary Extra Space Storage LLC ("ESS LLC") and the Operating Partnership, closed the acquisition of various entities that collectively comprise the Storage USA ("SUSA") self-storage business pursuant to the Purchase and Sale Agreement (the "Agreement"), dated May 5, 2005, between ESS LLC, the Operating Partnership, Security Capital Self Storage Incorporated, a Delaware corporation, PRISA Self Storage LLC, a Delaware limited liability company ("PRISA"), PRISA II Self Storage LLC, a Delaware limited liability company ("PRISA II"), PRISA III Self Storage LLC, a Delaware limited liability company ("PRISA III"), VRS Self Storage LLC, a Delaware limited liability company ("VRS"), WCOT Self Storage LLC, a Delaware limited liability company ("WCOT"), and the Prudential Insurance Company of America, a New Jersey corporation (together with its affiliates, "Prudential"). The total purchase price of the acquisition was $2.3 billion, including amounts paid by the Company and Prudential.

In connection with the transaction, 259 self-storage properties were acquired by five separate limited liability companies owned by five subsidiaries of the Company (each, a "Company Sub") and Prudential. The limited liability company agreements govern the rights and responsibilities of each such limited liability company. In addition, the Company acquired 61 wholly-owned self storage properties, SUSA's equity interest in joint ventures which collectively owned 78 properties, acquired $37.7 million of notes receivable due from franchisees and assumed the management of 60 franchises and third party owned properties for a purchase price of $585.7 million.

(Dollars in thousands, except share and per share data)

4. BUSINESS ACQUISITION (Continued)

The Company's total purchase cost for SUSA of approximately $585.7 million consisted of the following:

Cash	$	530,972
Operating Partnership units issued (1,470,149 units)		22,821
Liabilities assumed		31,940
Total purchase price	$	585,733

The total purchase price for the acquisition of SUSA has been allocated to tangible and intangible assets and liabilities based on their estimated fair values. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Other tangible assets and liabilities and intangible assets, which represent the value of existing tenant relationships, are recorded at their estimated fair value. The following table summarizes the fair values of the assets acquired and liabilities assumed:

Tangible assets:		
Land	$	86,234
Building		342,634
Intangibles assets:		
Tenant relationships		9,009
Investment in real estate ventures		90,677
Other assets and liabilities, net		57,179
Total assets acquired	$	585,733

The results of operations from this acquisition are reflected in the Company's 2007 and 2006 financial statements. The following table reflects the results of the Company's operations on a pro forma basis as if the SUSA acquisition had been completed on January 1, 2004. The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated on January 1, 2004, nor is it necessarily indicative of future operating results.

	Years ending December 31,			
		2005		2004
Revenues	$	176,591	$	137,808
Net loss	$	(5,582)	$	(25,694)
Loss per share	$	(0.16)	$	(1.68)

(Dollars in thousands, except share and per share data)

5. PROPERTY ACQUISITIONS

The following table shows the Company's acquisition of operating properties for the years ended December 31, 2007 and 2006 and does not include purchases of raw land or improvements made to existing assets:

Property Location(s)	Number of Properties	Date of Acquisition	Total Consideration	Cash Paid	Loans Receivable Settled	Loan Assumed	Net Liabilities / (Assets) Assumed	Value of OP Units Issued	Number of OP Units Issued	Source of Acquisition	Notes
Massachusetts(1), California(2), Connecticut(1)	4	12/31/2007	$ 40,674	$ 15,311	$ —	$ 24,482	$ 881	$ —	—	Related Party	(1)
New York	1	12/19/2007	2,926	1,240	—	1,765	(79)	—	—	Unrelated third party	
Texas	1	12/14/2007	6,122	5,964	—	—	158	—	—	Unrelated third party	
Florida	1	11/20/2007	12,115	4,887	—	7,400	(172)	—	—	Unrelated franchisee	
California	1	10/4/2007	10,805	3,675	—	7,205	(75)	—	—	Unrelated third party	
Alabama(1), Colorado(1), Indiana(1), Missouri(3), New Mexico(1)	7	8/31/2007	36,510	13,558	—	23,340	(388)	—	—	Affiliated joint venture	(2)
Maryland	1	8/31/2007	10,471	10,418	—	—	53	—	—	Affiliated joint venture	(3)
California	1	8/1/2007	14,686	4,915	—	—	5	9,766	80,905	Unrelated third party	
California	1	6/26/2007	11,216	196	—	2,822	1	8,197	61,398	Unrelated third party	
California(6) & Hawaii(2)	8	6/25/2007	126,623	11,154	—	—	1,933	113,536	847,677	Unrelated third party	
Georgia	3	6/14/2007	13,693	13,594	—	—	99	—	—	Unrelated franchisee	
California	1	6/14/2007	18,703	867	—	14,062	(60)	3,834	218,693	Unrelated third party	
Maryland	1	6/6/2007	14,942	8,128	—	6,834	(20)	—	—	Unrelated third party	
California	1	6/1/2007	4,020	4,036	—	—	(16)	—	—	Unrelated third party	
Florida	1	5/31/2007	8,975	8,882	—	—	93	—	—	Unrelated third party	
California	1	5/24/2007	5,585	5,575	—	—	10	—	—	Unrelated third party	
Maryland	1	4/17/2007	12,670	5,428	—	7,292	(50)	—	—	Unrelated third party	
Florida	1	3/27/2007	6,320	6,257	—	—	63	—	—	Unrelated franchisee	
Maryland	1	1/11/2007	14,334	14,348	—	—	(14)	—	—	Unrelated franchisee	
Tennessee	1	1/5/2007	3,684	3,672	—	—	12	—	—	Unrelated franchisee	
Arizona	1	1/2/2007	4,361	4,527	—	—	(166)	—	—	Affiliated joint venture	(2)
Florida(1) and Texas(3)	4	11/21/2006	22,928	22,507	—	—	421	—	—	Unrelated third party	
New Jersey	1	11/2/2006	13,338	13,129	—		209			Unrelated third party	
Colorado	1	9/1/2006	5,419	5,360	—	—	59	—	—	Unrelated third party	
Maryland	1	9/1/2006	16,340	13,094	—	—	116	3,130	182,828	Unrelated franchisee	
Texas	1	8/10/2006	3,764	3,715	—	—	49	—	—	Unrelated third party	
Georgia	1	8/8/2006	5,137	2,123	—	2,952	62	—	—	Unrelated franchisee	
California	1	7/28/2006	7,260	7,260	—	—	—	—	—	Unrelated third party	
Arizona	1	6/30/2006	4,100	4,100	—	—	—	—	—	Unrelated third party	
Texas	1	5/4/2006	14,521	14,521	—	—	—	—	—	Unrelated franchisee	
California	1	5/1/2006	12,500	12,403	—	—	97	—	—	Related Party	(4)
Kansas(1), Tennessee(1), and Texas(3)	5	4/12/2006	21,584	3,020	10,298	7,926	340	—	—	Related joint venture	(2)
Pennsylvania	1	3/30/2006	3,814	3,814	—	—	—	—	—	Unrelated third party	
Washington	3	2/15/2006	17,866	17,866	—	—	—	—	—	Unrelated third party	
Georgia	1	1/17/2006	5,148	5,148	—	—	—	—	—	Unrelated franchisee	
Florida	1	1/13/2006	8,003	8,003	—	—	—	—	—	Unrelated franchisee	
Florida	1	1/6/2006	5,414	5,414	—	—	—	—	—	Unrelated franchisee	
Total	64		$ 546,571	$ 288,109	$ 10,298	$ 106,080	$ 3,621	$ 138,463	1,391,501		

Notes:

(1) These properties were purchased from a related party that was owned by certain members of the Company's management team and a director. The independent members of the Company's board of directors approved this acquisition. The four properties include the purchase of one consolidated joint venture interest.

(Dollars in thousands, except share and per share data)

5. PROPERTY ACQUISITIONS (Continued)

(2) These properties were purchased from a joint venture entity in which the Company held partnership interests. The joint venture was dissolved and proceeds were distributed to joint venture partners. No gain or loss was recognized on these transactions.

(3) This property was purchased from a joint venture entity in which the Company holds a partnership interest. The joint venture remained in place and proceeds were distributed to the joint venture partner. No gain or loss was recognized on this transaction.

(4) This property was purchased from a related party that was owned by certain members of the Company's management team and a director. The independent members of the Company's board of directors approved this acquisition.

6. INVESTMENTS IN REAL ESTATE VENTURES

Investments in real estate ventures at December 31, 2007 and 2006 consist of the following:

			Investment balance at	
	Excess Profit Participation %	Equity Ownership %	December 31, 2007	December 31, 2006
Extra Space West One LLC ("ESW")	40%	5%	$ 1,804	$ 1,918
Extra Space West Two LLC ("ESW II")	40%	5%	5,019	—
Extra Space Northern Properties Six, LLC ("ESNPS")	35%	10%	1,642	1,757
PRISA Self Storage LLC ("PRISA")	17%	2%	12,732	13,393
PRISA II Self Storage LLC ("PRISA II")	17%	2%	10,608	10,821
PRISA III Self Storage LLC ("PRISA III")	20%	5%	4,405	4,534
VRS Self Storage LLC ("VRS")	20%	5%	4,515	4,547
WCOT Self Storage LLC ("WCOT")	20%	5%	5,211	5,287
Storage Portfolio I, LLC ("SP I")	40%	25%	18,567	19,260
Storage Portfolio Bravo II ("SPB II")	25-45%	20%	14,785	15,264
U-Storage de Mexico S.A. and related entities ("U-Storage")	35-40%	35-40%	4,891	—
Other minority owned properties	10-50%	10-50%	10,990	11,334
			$ 95,169	$ 88,115

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

On March 1, 2007, the Company acquired a 39.5% interest in U-Storage de Mexico S.A., an existing Mexican corporation ("U-Storage"), which currently manages, develops, owns and operates self storage facilities in Mexico. Kenneth T. Woolley, a former Senior Vice President of the Company and son of Kenneth M. Woolley, the CEO of the Company, also acquired a 0.5% interest in U-Storage.

On December 31, 2007, the Company acquired from Extra Space Development ("ESD"), a related party owned by certain members of management and a director, its ownership interest in three joint

(Dollars in thousands, except share and per share data)

6. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

ventures: Extra Space of Elk Grove LLC (70% ownership interest, a consolidated joint venture), Extra Space West Two LLC (5% ownership interest) and Storage Associates Holdco LLC (10% ownership interest.) The excess profit participation is 10-50% for each joint venture. In addition to the joint venture interests, three wholly-owned properties were purchased. For a complete description of the transaction with ESD, see Note 14.

Equity in earnings of real estate ventures for the years ended December 31, 2007, 2006, and 2005 consists of the following:

	For the Year Ended December 31,		
	2007	2006	2005
Equity in earnings of ESW	$ 1,490	$ 1,351	$ 1,171
Equity in earnings of ESW II	—	—	—
Equity in earnings of ESNPS	206	166	135
Equity in earnings of PRISA	716	528	265
Equity in earnings of PRISA II	574	448	210
Equity in earnings of PRISA III	316	124	70
Equity in earnings of VRS	265	158	79
Equity in earnings of WCOT	308	151	68
Equity in earnings of SP I	1,099	949	413
Equity in earnings of SPB II	776	786	319
Equity in earnings (losses) of U-Storage	(301)	—	—
Equity in earnings (losses) of other minority owned properties	(149)	32	440
	$ 5,300	$ 4,693	$ 3,170

Equity in earnings of SP I and SPB II includes the amortization of the Company's excess purchase price of approximately $22 million of these equity investments over its original basis. The excess basis is amortized over 40 years.

(Dollars in thousands, except share and per share data)

6. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Combined, condensed unaudited financial information of ESW, ESW II, ESNPS, PRISA, PRISA II, PRISA III, VRS, WCOT, SP I and SPB II as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006, and 2005, follows:

Balance Sheets:	December 31, 2007	December 31, 2006
Assets:		
Net real estate assets	$ 2,076,477	$ 2,142,970
Other	48,659	53,140
	$ 2,125,136	$ 2,196,110
Liabilities and members' equity:		
Borrowings	$ 542,790	$ 522,790
Other liabilities	41,696	52,776
Members' equity	1,540,650	1,620,544
	$ 2,125,136	$ 2,196,110

Statements of Income:	For the Year ended December 31, 2007	2006	2005
Rents and other income	$ 294,395	$ 282,212	$ 157,558
Expenses	195,776	210,222	99,211
Net income	$ 98,619	$ 71,990	$ 58,347

Information (unaudited) related to the real estate ventures' debt at December 31, 2007 is set forth below:

	Loan Amount	Current Interest Rate	Debt Maturity
ESW—Fixed	$ 16,650	4.59%	July 2010
ESW II—Fixed	20,000	5.48%	March 2012
ESNPS—Fixed	34,500	5.27%	June 2015
PRISA III—Fixed	145,000	4.97%	August 2012
VRS—Fixed	52,100	4.76%	August 2012
WCOT—Fixed	92,140	4.76%	August 2012
SPB II—Fixed	67,400	4.83%	July 2009
SP I—Fixed	115,000	4.62%	April 2011
Other	80,403	various	various

7. INVESTMENTS AVAILABLE-FOR-SALE

The Company accounts for its investments in debt and equity securities according to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires securities classified as "available-for-sale" to be stated at fair value. Adjustments to fair value of available-for-sale securities are recorded as a component of other comprehensive income. A decline in the market value of investment securities below cost, that is deemed to be other than temporary, results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. At December 31, 2007, the Company had $24,460 par value invested in non mortgage-backed auction rate securities ("ARS"), which are classified as available-for-sale investments. Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism allows existing investors to rollover their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par.

The recent uncertainties in the credit markets have prevented the Company and other investors from liquidating the holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, the Company still holds these auction rate securities and is receiving interest at a higher rate than similar securities for which auctions have cleared. These investments are insured against loss of principal and interest and have credit ratings of AAA—AA. The Company is uncertain as to when the liquidity issues relating to these investments will improve. Related to these failed auctions, the Company recorded a $1,233 other-than-temporary impairment charge and a $1,415 temporary impairment charge to reduce the value of the investment in ARS to an estimated fair value of $21,812.

The carrying value of the Company's investments in ARS as of December 31, 2007 represents the Company's best estimate of the fair value of these investments based on currently available information. For example, the estimation process included consideration of such factors as issuer and insurer credit rating, comparable market data, if available, credit enhancement structures, projected yields, discount rates and terminal periods. Due to the uncertainty in the credit markets, it is reasonably possible the fair value of these investments may change in the near term. If the credit markets recover and successful auctions resume, the Company may be able to recover an amount greater than the carrying value of the ARS as of December 31, 2007, which would result in a gain. However, if the issuers are unable to successfully close future auctions and their credit ratings deteriorate, the Company may be required to further adjust the carrying value of its investment in ARS through additional impairment charges. An estimate of these future losses or gains cannot be made by the Company at this time.

(Dollars in thousands, except share and per share data)

8. OTHER ASSETS

Other assets at December 31, 2007 and 2006 are summarized as follows:

	December 31, 2007	December 31, 2006
Equipment and fixtures	$ 11,899	$ 11,083
Less: accumulated depreciation	(8,364)	(6,564)
Deferred financing costs, net	15,534	10,511
Prepaid expenses and deposits	5,162	5,139
Accounts receivable, net	8,516	9,373
Investments in Trusts	3,590	3,590
Other	223	224
	$ 36,560	$ 33,356

9. NOTES PAYABLE

Notes payable at December 31, 2007 and 2006 are summarized as follows:

	December 31, 2007	December 31, 2006
Fixed Rate		
Mortgage and construction loans with banks bearing interest at fixed rates between 4.65% and 8.33%. The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between March 21, 2009 and January 1, 2023.	$ 825,326	$ 743,511
Variable Rate		
Mortgage and construction loans with banks bearing floating interest rates (including loans subject to interest rate swaps) based on LIBOR. Interest rates are between LIBOR plus 0.65% (5.25% and 6.01% at December 31, 2007 and December 31, 2006, respectively) and LIBOR plus 2.50% (7.10% and 7.36% at December 31, 2007 and December 31, 2006, respectively). The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between July 9, 2008 and March 1, 2011.	124,855	85,073
	$ 950,181	$ 828,584

(Dollars in thousands, except share and per share data)

9. NOTES PAYABLE (Continued)

The following table summarizes the scheduled maturities of notes payable at December 31, 2007:

1/1/08-12/31/08	$ 39,985
1/1/09-12/31/09	301,612
1/1/10-12/31/10	113,400
1/1/11-12/31/11	72,044
1/1/12-12/31/12	11,280
Thereafter	412,860
	$ 950,181

Real estate assets are pledged as collateral for the notes payable. The Company is subject to certain restrictive covenants relating to the outstanding notes payable. The Company was in compliance with all covenants at December 31, 2007.

In October 2004, the Company entered into a reverse interest rate swap agreement ("Swap Agreement") to float $61,770 of 4.30% fixed interest rate secured notes due in June 2009. Under this Swap Agreement, the Company will receie interest at a fixed rate of 4.30% and pay interest at a variable rate equal to LIBOR plus 0.655%. The Swap Agreement matures at the same time the notes are due. This Swap Agreement is a fair value hedge, as defined by SFAS No. 133, and the fair value of the Swap Agreement is recorded as an asset or liability, with an offsetting adjustment to the carrying value of the related note payable. Monthly variable interest payments are recognized as an increase or decrease in interest expense.

The estimated fair value of the Swap Agreement at December 31, 2007 and 2006 was reflected as an other liability of $125 and $1,925, respectively. For the years ended December 31, 2007 and 2006 interest expense was increased by $1,032 and $802, respectively, as a result of the Swap Agreement. For the year ended December 31, 2005, interest expense was reduced by $70 as a result of the Swap Agreement.

On August 31, 2007, as part of the acquisition of our partner's joint venture interest in seven properties, the Company assumed an interest rate cap agreement related to the assumption of the loan on these properties. The Company has designated the interest rate cap agreement as a cash flow hedge of the interest payments resulting from an increase in the interest rate above the rates designated in the interest rate cap agreement. The interest rate cap agreement will allow increases in interest payments based on an increase in the LIBOR rate above the capped rates (5.19% from 1/1/07 to 12/31/07 and 5.48% from 1/1/08 to 12/31/08) on $23,340 of floating rate debt to be offset by the value of the interest rate cap agreement. The value of the estimated fair value of the interest rate cap at December 31, 2007, was not material and no asset or liability was recorded.

10. NOTES PAYABLE TO TRUSTS

During July 2005, ESS Statutory Trust III (the "Trust III"), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership, issued an aggregate of $40.0 million of preferred securities which mature on July 31, 2035. In addition, the Trust III issued

10. NOTES PAYABLE TO TRUSTS (Continued)

1,238 of Trust common securities to the Operating Partnership for a purchase price of $1.2 million. On July 27, 2005, the proceeds from the sale of the preferred and common securities of $41.2 million were loaned in the form of a note to the Operating Partnership ("Note 3"). Note 3 has a fixed rate of 6.91% through July 31, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum. The interest on Note 3, payable quarterly, will be used by the Trust III to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after July 27, 2010.

During May 2005, ESS Statutory Trust II (the "Trust II"), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership of the Company, issued an aggregate of $41.0 million of preferred securities which mature on June 30, 2035. In addition, the Trust II issued 1,269 of Trust common securities to the Operating Partnership for a purchase price of $1.3 million. On May 24, 2005, the proceeds from the sale of the preferred and common securities of $42.3 million were loaned in the form of a note to the Operating Partnership ("Note 2"). Note 2 has a fixed rate of 6.67% through June 30, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum. The interest on Note 2, payable quarterly, will be used by the Trust II to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

During April 2005, ESS Statutory Trust I (the "Trust"), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership of the Company issued an aggregate of $35.0 million of trust preferred securities which mature on June 30, 2035. In addition, the Trust issued 1,083 of Trust common securities to the Operating Partnership for a purchase price of $1.1 million. On April 8, 2005, the proceeds from the sale of the trust preferred and common securities of $36.1 million were loaned in the form of a note to the Operating Partnership (the "Note"). The Note has a variable rate equal to the three-month LIBOR plus 2.25% per annum. The interest on the Note, payable quarterly, will be used by the Trust to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

Under FIN 46R, Trust, Trust II and Trust III are VIEs that are not consolidated because the Company is not the primary beneficiary. A debt obligation has been recorded in the form of notes as discussed above for the proceeds, which are owed to the Trust, Trust II, and Trust III by the Company.

11. EXCHANGEABLE SENIOR NOTES

On March 27, 2007, our Operating Partnership issued $250.0 million of its 3.625% Exchangeable Senior Notes due April 1, 2027 (the "Notes"). Costs incurred to issue the Notes were approximately $5.7 million. These costs are being amortized as an adjustment to interest expense over five years, which represents the estimated term of the Notes, and are included in other assets, net in the Consolidated Balance Sheet as of December 31, 2007. The Notes are general unsecured senior obligations of the Operating Partnership and are fully guaranteed by the Company. Interest is payable on April 1 and October 1 of each year beginning October 1, 2007 until the maturity date of April 1, 2027. The Notes bear interest at 3.625% per annum and contain an exchange settlement feature, which

11. EXCHANGEABLE SENIOR NOTES (Continued)

provides that the Notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the Notes) and, with respect to any excess exchange value, for cash, shares of our common stock or a combination of cash and shares of our common stock at an initial exchange rate of approximately 42.6491 shares per $1,000 principal amount of Notes at the option of the Operating Partnership.

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

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

The Company has considered whether the exchange settlement feature represents an embedded derivative within the debt instrument under the guidance of FAS 133: "*Accounting for Derivative Instruments and Hedging Activities*," EITF 90-19: "*Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion*," and EITF 01-6: *"The Meaning of "Indexed to a Company's Own Stock""* that would require bifurcation (i.e., separate accounting). The Company has concluded that the exchange settlement feature has satisfied the exemption in SFAS 133 because it is indexed to the Company's own common stock and would otherwise be classified in stockholders equity, among other considerations. Accordingly, the Notes are presented as a single debt instrument (often referred to as "Instrument C" in EITF 90-19) in accordance with APB 14 "*Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*" due to the inseparability of the debt and the conversion feature.

12. LINE OF CREDIT

The Company, as guarantor, and its Operating Partnership entered into a $100.0 million revolving line of credit in September 2004, which included a $10.0 million swing line sub facility (the "Credit Facility"). The Credit Facility had an interest rate of 175 basis points over LIBOR (6.87% and 7.10% at December 31, 2007 and December 31, 2006, respectively), and was collateralized by mortgages on certain real estate assets. No amounts were outstanding on the line of credit at December 31, 2006 and 2005. The Credit Facility expired in September 2007 and was not renewed.

On October 19, 2007, the Company entered into a new $100.0 million revolving line of credit (the "Credit Line") that matures October 31, 2010. The Company intends to use the proceeds of the Credit Line for general corporate purposes. The Credit Line has an interest rate of between 100 and 205 basis points over LIBOR, depending on certain financial ratios of the Company. The Credit Line is collateralized by mortgages on certain real estate assets. As of December 31, 2007, the Credit Line had $100.0 million of capacity based on the assets collateralizing the Credit Line. No amounts were outstanding on the Credit Line at December 31, 2007. The Company is subject to certain restrictive

(Dollars in thousands, except share and per share data)

12. LINE OF CREDIT (Continued)

covenants relating to the line of credit. The Company was in compliance with all covenants at December 31, 2007.

13. OTHER LIABILITIES

Other liabilities at December 31, 2007 and 2006 are summarized as follows:

	December 31, 2007	December 31, 2006
Deferred rental income	$ 11,805	$ 9,224
Security deposits	383	291
SUSA lease obligation liability	2,592	2,838
Fair value of interest rate swap	125	1,925
Other miscellaneous liabilities	3,150	2,956
	$ 18,055	$ 17,234

As a result of the acquisition of SUSA in 2005, the Company recorded restructuring liabilities of $4,638 relating to the assumption of a lease for a facility that will no longer be used in the Company's operations.

The following table sets forth the restructuring activity during the year ended December 31, 2007:

	Accrued restructuring liabilities at December 31, 2006	Cash Paid	Accrued restructuring liabilities at December 31, 2007
Facility exit costs	2,838	(246)	2,592
Allocated to:			
Continuing operations	$ 2,838	$ (246)	$ 2,592

14. RELATED PARTY AND AFFILIATED REAL ESTATE JOINT VENTURE TRANSACTIONS

The Company provides management and development services for certain joint ventures, franchise, third party and other related party properties. Management agreements provide generally for management fees of 6% of gross rental revenues for the management of operations at the self-storage facilities. The Company earns development fees of 4%-6% of budgeted costs on developmental projects and acquisition fees of 1% of the gross purchase price or the completed costs of development of acquired properties. As discussed in Note 5, the Company has purchased self-storage properties from related parties and affiliated entities.

(Dollars in thousands, except share and per share data)

14. RELATED PARTY AND AFFILIATED REAL ESTATE JOINT VENTURE TRANSACTIONS (Continued)

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

		For the Year ended December 31,		
Entity	Type	2007	2006	2005
ESW	Affiliated real estate joint ventures	$ 436	$ 413	$ 374
ESNPS	Affiliated real estate joint ventures	444	422	397
PRISA	Affiliated real estate joint ventures	5,132	5,057	2,391
PRISA II	Affiliated real estate joint ventures	4,184	4,081	1,913
PRISA III	Affiliated real estate joint ventures	1,862	1,843	871
VRS	Affiliated real estate joint ventures	1,151	1,118	514
WCOT	Affiliated real estate joint ventures	1,539	1,464	688
SP I	Affiliated real estate joint ventures	1,264	1,221	548
SPB II	Affiliated real estate joint ventures	1,026	1,032	477
Extra Space Development ("ESD")	Related party	743	518	292
Various	Franchisees, third parties and other	2,817	3,714	2,185
		$ 20,598	$ 20,883	10,650

Development fee revenues for related party and affiliated real estate joint ventures for the years ended December 31, 2007, 2006 and 2005 are summarized as follows:

	For the Year ended December 31,		
	2007	2006	2005
Affiliated real estate joint ventures	$ 357	$ 163	$ 704
Related party	—	109	288
	$ 357	$ 272	$ 992

Receivables from related parties and affiliated real estate joint ventures balances as of December 31, 2007 and 2006 are summarized as follows:

	December 31, 2007	December 31, 2006
Development fees	$ 1,501	$ 2,633
Other receivables from properties	5,885	13,247
	$ 7,386	$ 15,880

Development fees receivable consist of amounts due for development services from third parties and unconsolidated joint ventures. Other receivables from properties consist of amounts due for expenses paid on behalf of the properties that the Company manages and management fees. The Company believes that all of these related party and affiliated real estate joint venture receivables are

14. RELATED PARTY AND AFFILIATED REAL ESTATE JOINT VENTURE TRANSACTIONS (Continued)

fully collectible. The Company does not have any payables to related parties at December 31, 2007 and 2006.

The Company has determined that it had a variable interest in properties in which ESD owned or had an ownership interest. The Company did not have an equity investment or interest, and it was not the primary beneficiary. This variable interest was a result of management and development contracts that were held by the Company. The variable interest was limited to the management and development fees and there was not any additional loss that could be attributed to the Company. The Company determined that it was not the primary beneficiary in these agreements. Accordingly, these properties were not consolidated subsequent to August 16, 2004.

On December 31, 2007, the Company acquired ESD and its related assets for $46,674. The following assets were purchased as part of this transaction:

1. Three wholly-owned properties;
2. 70% ownership interest in Extra Space of Elk Grove LLC, a consolidated joint venture that owns one property;
3. 5% ownership interest in Extra Space West Two LLC, an unconsolidated joint venture that owns five properties; and
4. 10% ownership interest Storage Associates Holdco LLC, an unconsolidated joint venture that owns six properties.

The independent members of the Company's board of directors reviewed and approved the acquisition of ESD.

Centershift, a related party service provider, is partially owned by a certain director and members of management of the Company. Effective January 1, 2004, the Company entered into a license agreement with Centershift which secures a perpetual right for continued use of STORE (the site management software used at all sites operated by the Company) in all aspects of the Company's property acquisition, development, redevelopment and operational activities. During the years ended December 31, 2007, 2006 and 2005, the Company paid Centershift $965, $824, and $739, respectively, relating to the purchase of software and to license agreements.

The Company has entered into an aircraft dry lease and service and management agreement with SpenAero, L.C. ("SpenAero") an affiliate of Spencer F. Kirk, the Company's President. Under the terms of the agreement, the Company pays a defined hourly rate for use of the aircraft. During the years ended December 31, 2007, 2006 and 2005, the Company paid SpenAero $395, $314, and $263, respectively. The services that the Company receives from SpenAero are similar in nature and price to those that are provided to other outside third parties.

15. MINORITY INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS

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

On June 25 and 26, 2007, nine of the ten properties were contributed to the Operating Partnership in exchange for consideration totaling $137.8 million. Preferred OP units totaling 909,075, with a value of $121.7 million, were issued along with the assumption of approximately $14.2 million of third-party debt, of which $11.4 million was paid off at close. The final property was contributed on August 1, 2007 in exchange for consideration totaling $14.7 million. 80,905 Preferred OP units with a value of $9.8 million were issued along with $4.9 million of cash.

On June 25, 2007, the Company loaned the holders of the Preferred OP units $100.0 million. 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 $100.0 million loan under the guidance in EITF No. 85-1, "*Classifying Notes Receivable for Capital,"* because the borrower under the loan receivable is also the holder of the Preferred OP units.

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

Under the Partnership Agreement, Preferred OP units in the amount of $115.0 million bear a fixed priority return of 5% and have a fixed liquidation value of $115.0 million. The remaining balance will participate in distributions with and have a liquidation value equal to that of the common Operating Partnership units. The Preferred OP units will be redeemable at the option of the holder on or after September 1, 2008, which redemption obligation may be satisfied, at the Company's option, in cash or shares of its common stock.

At issuance, in accordance with SFAS 133: "*Accounting for Derivative Instruments and Hedging Activities"*, SFAS 150: *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity",* EITF 00-19: *"Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock"*, EITF Topic D-109: "*Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133":* and Accounting Series Release ("ASR") No. 268: *"Presentation in Financial Statements of "Redeemable Preferred Stocks",* from inception through September 28, 2007 (the date of the amendment discussed below), the Preferred OP units were classified as a hybrid instrument such that the value of the units associated with the fixed return were classified in mezzanine after total liabilities on the balance sheet and before stockholders' equity. The remaining balance that participates in distributions equal to that of common OP units had been identified as an embedded derivative and had been classified as a

15. MINORITY INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS (Continued)

liability on the balance sheet and recorded at fair value on a quarterly basis with any adjustment being recorded through earnings. For the year ended December 31, 2007, the fair value adjustment associated with the embedded derivative was $1,054.

On September 28, 2007, the Operating Partnership entered into an amendment to the Contribution Agreement (the "Amendment"). Pursuant to the Amendment, the maximum number of shares that can be issued upon redemption of the Preferred OP units was set at 116 million, after which the Company will have no further obligations with respect to the redeemed or any other remaining Preferred OP units. As a result of the Amendment, and in accordance with the above referenced guidance, the Preferred OP units are no longer considered a hybrid instrument and the previously identified embedded derivative no longer requires bifurcation and is considered permanent equity of the Operating Partnership. The Preferred OP units are included on the consolidated balance sheet as the minority interest represented by Preferred OP units.

16. MINORITY 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 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 92.88% majority ownership interest therein as of December 31, 2007. The remaining ownership interests in the Operating Partnership (including Preferred OP Units) of 7.12% are held by certain former owners of assets acquired by the Operating Partnership, which include a director and officers of the Company.

The minority interest in the Operating Partnership represents OP units that are not owned by the Company. In conjunction with the formation of the Company and as a result of subsequent acquisitions, certain persons and entities contributing interests in properties to the Operating Partnership received limited partnership units in the form of either OP units or Contingent Conversion units. Limited partners who received OP units in the formation transactions or in exchange for contributions for interests in properties have the right to require the Operating Partnership to redeem part or all of their OP units for cash based upon the fair market value of an equivalent number of shares of the Company's common stock (10 day average) at the time of the redemption. Alternatively, the Company may, at its option, elect to acquire those OP units in exchange for shares of its common stock on a one-for-one basis, subject to anti-dilution adjustments provided in the Operating Partnership agreement. The ten day average closing stock price at December 31, 2007, was $14.04 and there were 4,050,588 OP units outstanding. Assuming that all of the unit holders exercised their right to redeem all of their Operating Partnership units on December 31, 2007 and the Company elected to pay the non-controlling members cash, the Company would have paid $56,870 in cash consideration to redeem the units.

16. MINORITY INTEREST IN OPERATING PARTNERSHIP (Continued)

During June 2007, the Company issued 218,693 OP units valued at $3.8 million in conjunction with the acquisition of a property in San Francisco, California. 47,334 OP units were redeemed in exchange for cash throughout 2007.

During September 2006, the Company issued 182,828 OP units valued at $3.1 million in conjunction with the acquisition of a property in Rockville, Maryland. During July 2006, 200,000 Operating Partnership units were redeemed in exchange for common stock.

As of December 31, 2007, the Operating Partnership had 4,050,588 and 129,432 OP units and CCUs outstanding, respectively.

Unlike the OP units, CCUs do not carry any voting rights. Upon the achievement of certain performance thresholds relating to 14 wholly-owned lease-up properties, all or a portion of the CCUs will be automatically converted into OP units. Initially, each CCU will be convertible on a one-for-one basis into OP Units, subject to customary anti-dilution adjustments. Beginning with the quarter ended March 31, 2006, and ending with the quarter ending December 31, 2008, the Company calculates the net operating income from the 14 wholly-owned lease-up properties over the 12-month period ending in such quarter. Within 35 days following the end of each quarter referred to above, some or all of the CCUs will be converted so that the total percentage (not to exceed 100%) of CCUs issued in connection with the formation transactions that have been converted to OP units will be equal to the percentage determined by dividing the net operating income for such period in excess of $5.1 million by $4.6 million. If any CCU remains unconverted through the calculation made in respect of the 12-month period ending December 31, 2008, such outstanding CCUs will be cancelled.

While any CCUs remain outstanding, a majority of the Company's independent directors must review and approve the net operating income calculation for each measurement period and also must approve the sale of any of the 14 wholly-owned lease-up properties.

As of December 31, 2007, there were 70,614 CCUs converted to OP units. Based on the performance of the properties as of December 31, 2007, an additional 22,269 CCUs became eligible for conversion. The board of directors approved the conversion of these CCUs on February 1, 2008 as per the Company's charter, and the units were issued on February 5, 2008.

17. STOCKHOLDERS' EQUITY

The Company's charter provides that it can issue up to 300,000,000 shares of common stock, $0.01 par value per share, 4,100,000 CCSs, $.01 par value per share, and 50,000,000 shares of preferred stock, $0.01 par value per share. As of December 31, 2007, 65,784,274 shares of common stock were issued and outstanding, 2,645,547 CCSs were issued and outstanding and no shares of preferred stock were issued or outstanding.

All stockholders of the Company's common stock are entitled to receive dividends and to one vote on all matters submitted to a vote of stockholders. The transfer agent and registrar for the Company's common stock is American Stock Transfer & Trust Company. On October 29, 2007, the Company's Board of Directors approved an increase in the Company's annual dividend to $1.00 per common share to be paid quarterly at the rate of $0.25 per common share starting in the fourth quarter of 2007.

17. STOCKHOLDERS' EQUITY (Continued)

Unlike the Company's shares of common stock, CCSs do not carry any voting rights. Upon the achievement of certain performance thresholds relating to 14 wholly-owned lease-up properties, all or a portion of the CCSs will be automatically converted into shares of the Company's common stock. Initially, each CCS will be convertible on a one-for-one basis into shares of common stock, subject to customary anti-dilution adjustments. Beginning with the quarter ended March 31, 2006, and ending with the quarter ending December 31, 2008, the Company calculates the net operating income from the 14 wholly-owned lease-up properties over the 12-month period ending in such quarter. Within 35 days following the end of each quarter referred to above, some or all of the CCSs will be converted so that the total percentage (not to exceed 100%) of CCSs issued in connection with the formation transactions that have been converted to common stock will be equal to the percentage determined by dividing the net operating income for such period in excess of $5.1 million by $4.6 million. If any CCS remains unconverted through the calculation made in respect of the 12-month period ending December 31, 2008, such outstanding CCSs will be cancelled and restored to the status of authorized but unissued shares of common stock.

While any CCSs remain outstanding, a majority of the Company's independent directors must review and approve the net operating income calculation for each measurement period and also must approve the sale of any of the 14 wholly-owned lease-up properties.

As of December 31, 2007, there were 1,372,728 CCSs converted to common stock. Based on the performance of the properties as of December 31, 2007, an additional 432,883 CCSs became eligible for conversion. The board of directors approved the conversion of these CCSs on February 1, 2008 as per the Company's charter, and the shares were issued on February 5, 2008.

18. STOCK-BASED COMPENSATION

As of December 31, 2007, the Company had authorized 8,800,000 shares of common stock for issuance under the Company's two stock compensation plans: (1) the 2004 Long-Term Incentive Compensation Plan, and (2) the 2004 Non-Employee Directors' Share Plan (together, the "Plans").

Under the terms of the Plans, the exercise price of an option shall be determined by the Compensation, Nominating and Governance Committee and reflected in the applicable award agreement. All option grants have been issued at the five day average close price prior to the date of the grant. Each option will be exercisable after the period or periods specified in the award agreement (typically four years), which will generally not exceed 10 years from the date of grant. Options will be exercisable at such times and subject to such terms as determined by the Compensation, Nominating and Governance Committee, but under no circumstances may be exercised if such exercise would cause a violation of the ownership limit in the Company's charter. Unless otherwise determined by the Compensation, Nominating and Governance Committee at the time of grant, such stock options shall vest ratably over a four-year period beginning on the date of grant.

Also as defined under the terms of the Plans, restricted stock grants may be awarded. The stock grants are subject to a performance or vesting period over which the restrictions are lifted and the stock certificates are given to the grantee. During the performance or vesting period, the grantee is not permitted to sell, transfer, pledge, encumber or assign shares of restricted stock granted under the plan,

(Dollars in thousands, except share and per share data)

18. STOCK-BASED COMPENSATION (Continued)

however, has the ability to vote the shares and receive the dividends paid on the shares. The forfeiture and transfer restriction on the shares lapse over a two to four year period beginning on the date of grant.

Option Grants to Employees

As of December 31, 2007, 5,390,183 shares were available for issuance under the Plans. A summary of stock option activity for the years ended December 31, 2007 and 2006 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value as of December 31, 2007
Outstanding at December 31, 2005	3,046,523	$ 13.89		
Granted	161,914	15.48		
Exercised	(259,700)	13.11		
Forfeited	(384,174)	14.92		
Outstanding at December 31, 2006	2,564,563	13.92		
Granted	418,000	18.51		
Exercised	(126,801)	13.68		
Forfeited	(204,044)	14.71		
Outstanding at December 31, 2007	2,651,718	$ 14.54	7.39	$ 2,150
Vested and Expected to Vest	2,032,385	$ 14.27	7.26	$ 1,849
Ending Exercisable	1,312,957	$ 13.56	6.91	$ 1,489

The weighted average fair value of stock options granted in 2007, 2006 and 2005 was $2.34, $1.78 and $1.25, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2007, 2006 and 2005:

	Year Ended December 31,		
	2007	2006	2005
Expected volatility	25%	24%	21%
Dividend yield	6.4%	5.5%	6.9%
Risk-free interest rate	3.5%	4.7%	3.7%
Average expected term (years)	5	5	5

(Dollars in thousands, except share and per share data)

18. STOCK-BASED COMPENSATION (Continued)

A summary of stock options outstanding and exercisable as of December 31, 2007 is as follows:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
12.50 - 14.00	1,254,574	6.66	$	12.58	855,324	$	12.55
14.01 - 15.50	388,568	8.13		14.91	114,943		14.80
15.51 - 17.00	710,576	7.53		15.68	342,690		15.66
17.01 - 18.50	—	—		—	—		—
18.51 - 20.00	298,000	9.18		19.61	—		—
	2,651,718	7.39	$	14.54	1,312,957	$	13.56

Total compensation expense of $865 and $798 was recorded relating to outstanding options for the years ended December 31, 2007 and 2006. The total compensation cost related to non-vested stock options not yet recognized was approximately $1.1 million and the weighted-average period over which the total compensation cost related to non-vested stock options is expected to be realized is 1.86 years. Total cash received for the years ended December 31, 2007 and 2006 related to option exercises was $1,735 and $934, respectively.

The following pro-forma information as required by SFAS No. 148, "*Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123*," is presented for comparative purposes and illustrates the effect on net loss and net loss per common share for the year ended December 31, 2005, as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation prior to January 1, 2006:

		Year Ended December 31, 2005
Net loss attributable to common stockholders as reported	$	(4,966)
Add: Stock-based compensation expense included in reported net loss attributable to common stockholders		601
Deduct: Stock-based compensation expense determined under fair value method for all awards		(1,261)
Pro forma net loss	$	(5,626)
Loss per common share		
Basic and diluted—as reported	$	(0.14)
Basic and diluted—pro forma	$	(0.16)

Common Stock Granted to Employees and Directors

For the years ended December 31, 2007 and 2006, the Company granted 108,729 and 50,300 shares respectively of common stock to certain employees, without monetary consideration under the Company's 2004 Long-Term Incentive Compensation Plan.

(Dollars in thousands, except share and per share data)

18. STOCK-BASED COMPENSATION (Continued)

On August 1, 2007 and May 15, 2006, the Company's Board of Directors approved the annual issuance of 12,000 shares of common stock without monetary consideration under the Company's 2004 Non-Employee Directors' Share Plan to certain of its directors for services performed.

The Company recorded $1,260 and $927 of expense in general and administrative expense in its statement of operations related to outstanding shares of common stock granted to employees and directors for the years ended December 31, 2007 and 2006, respectively.

The fair value of common stock awards is determined based on the closing trading price of the Company's common stock on the grant date. A summary of the Company's employee and director share grant activity for the years ended December 31, 2007 and 2006 is as follows:

Restricted Stock Grants	Shares	Weighted-Average Grant-Date Fair Value
Unreleased at December 31, 2005	173,750	$ 15.66
Granted	62,300	16.42
Released	(46,250)	15.68
Cancelled	(33,500)	15.71
Unreleased at December 31, 2006	156,300	$ 15.94
Granted	120,729	18.17
Released	(61,975)	15.90
Cancelled	(3,082)	18.39
Unreleased at December 31, 2007	211,972	$ 17.23

19. EMPLOYEE BENEFIT PLAN

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code under which eligible employees can contribute up to 15% of their annual salary, subject to a statutory prescribed annual limit. For the years ended December 31, 2007 and 2006, the Company made matching contributions to the plan of $999 and $772, respectively, based on 100% of the first 3% and up to 50% of the next 2% of an employee's compensation.

20. GAIN ON SALE OF REAL ESTATE ASSETS

On August 3, 2007, the Company sold an undeveloped parcel of vacant land in Kendall, Florida for its book value of $1,999. There was no gain or loss recognized on the sale.

On January 30, 2006, the Company sold an excess parcel of vacant land in Lanham, Pennsylvania for its book value of $728. There was no gain or loss recognized on the sale.

(Dollars in thousands, except share and per share data)

21. SEGMENT INFORMATION

The Company operates in two distinct segments; (1) property management, acquisition and development and (2) rental operations. Financial information for the Company's business segments are set forth below:

	For the Year Ended December 31,		
	2007	2006	2005
Statement of Operations			
Total revenues			
Property management, acquisition and development	$ 32,551	$ 26,271	$ 14,088
Rental operations	206,315	170,993	120,640
	$ 238,866	$ 197,264	$ 134,728
Operating expenses, including depreciation and amortization			
Property management, acquisition and development	$ 43,450	$ 39,055	$ 25,762
Rental operations	111,618	98,557	76,612
	$ 155,068	$ 137,612	$ 102,374
Income (loss) before interest, Preferred Operating Partnership, impairment, minority interests and equity in earnings of real estate ventures			
Property management, acquisition and development	$ (10,899)	$ (12,784)	$ (11,674)
Rental operations	94,697	72,436	44,028
	$ 83,798	$ 59,652	$ 32,354
Interest expense			
Property management, acquisition and development	$ (1,300)	$ (829)	$ (911)
Rental operations	(59,715)	(50,124)	(41,638)
	$ (61,015)	$ (50,953)	$ (42,549)
Interest income			
Property management, acquisition and development	$ 7,925	$ 2,469	$ 1,625
Interest income on note receivable from Preferred Unit holder			
Property management, acquisition and development	$ 2,492	$ —	$ —
Fair value adjustment of obligation associated with Preferred Partnership units			
Property management, acquisition and development	$ 1,054	$ —	$ —
Impairment of investments available-for-sale			
Property management, acquisition and development	$ (1,233)	$ —	$ —
Minority interests—Operating Partnership and other			
Property management, acquisition and development	$ (2,227)	$ (985)	$ 434
Equity in earnings of real estate ventures			
Rental operations	$ 5,300	$ 4,693	$ 3,170
Net income (loss)			
Property management, acquisition and development	$ (4,188)	$ (12,129)	$ (10,526)
Rental operations	40,282	27,005	5,560
	$ 36,094	$ 14,876	$ (4,966)
Depreciation and amortization expense			
Property management, acquisition and development	$ 1,253	$ 858	$ 356
Rental operations	38,548	36,314	30,649
	$ 39,801	$ 37,172	$ 31,005
Statement of Cash Flows			
Acquisition of real estate assets			
Property management, acquisition and development	$ (183,690)	$ (174,305)	$ (79,227)
Acquisition of Storage USA			
Property management, acquisition and development	$ —	$ —	$ (530,972)
Development and construction of real estate assets			
Property management, acquisition and development	$ (45,636)	$ (34,782)	$ (20,204)

(Dollars in thousands, except share and per share data)

21. SEGMENT INFORMATION (Continued)

	December 31, 2007	December 31, 2006
Balance Sheet		
Investment in real estate ventures		
Rental operations	$ 95,169	$ 88,115
Total assets		
Property management, acquisition and development	$ 385,394	$ 223,402
Rental operations	1,668,681	1,446,423
	$ 2,054,075	$ 1,669,825

22. COMMITMENTS AND CONTINGENCIES

The Company has operating leases on its corporate offices and owns 12 self-storage facilities that are subject to ground leases. At December 31, 2007, future minimum rental payments under these non-cancelable operating leases are as follows:

	Total
Less than 1 yr	$ 5,444
Year 2	5,133
Year 3	5,061
Year 4	4,423
Year 5	3,676
Thereafter	38,537
	$ 62,274

The monthly rental amount for one of the ground leases is the greater of a minimum amount or a percentage of gross monthly receipts. The Company recorded rent expense of $3,115, $2,641, and $2,591 related to these leases in the years ended December 31, 2007, 2006 and 2005, respectively.

The Company has guaranteed three construction loans for unconsolidated partnerships that own development properties in Baltimore, Maryland, Chicago, Illinois and Sacramento, California. These properties are owned by joint ventures in which the Company has between 10% and 50% equity interests. These guarantees were entered into in November 2004, July 2005 and August 2007, respectively. At December 31, 2007, the total amount of guaranteed mortgage debt relating to these joint ventures was $17,284 (unaudited). These mortgage loans mature December 1, 2008, July 28, 2008 and August 3, 2010, respectively. 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 estimated fair market value of the encumbered assets at December 31, 2007 is $23,088 (unaudited). The Company has recorded no liability in relation to this guarantee as of December 31, 2007, as the fair value of the guarantee is not material. To date, the joint ventures have not defaulted on their mortgage debt. The Company believes the risk of having to perform on the guarantee is remote.

(Dollars in thousands, except share and per share data)

22. COMMITMENTS AND CONTINGENCIES (Continued)

The Company has been involved in routine litigation arising in the ordinary course of business. As of December 31, 2007, the Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against its properties.

23. SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three months ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Revenues	$ 53,776	$ 56,550	$ 63,826	$ 64,714
Cost of operations	$ 36,155	$ 36,819	$ 41,112	$ 40,982
Net income	$ 6,470	$ 8,695	$ 11,338	$ 9,591
Net income attributable to common stockholders	$ 6,470	$ 8,695	$ 9,828	$ 9,591
Net income—basic	$ 0.10	$ 0.13	$ 0.15	$ 0.15
Net income—diluted	$ 0.10	$ 0.13	$ 0.15	$ 0.15

	Three months ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Revenues	$ 45,370	$ 48,531	$ 51,188	$ 52,175
Cost of operations	$ 34,214	$ 33,665	$ 34,661	$ 35,072
Net income	$ 738	$ 3,092	$ 4,307	$ 6,739
Net income attributable to common stockholders	$ 738	$ 3,092	$ 4,307	$ 6,739
Net income—basic	$ 0.01	$ 0.06	$ 0.08	$ 0.11
Net income—diluted	$ 0.01	$ 0.06	$ 0.07	$ 0.10

Extra Space Storage Inc.
Schedule III
Real Estate and Accumulated Depreciation
(Dollars in thousands)

											Gross carrying amount at December 31, 2007				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustments	Notes	Building Adjustments	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Hoover	AL	$ 2,550	$ 1,313	$ 2,858	$ —	$ 373	$ —		$ —		$ 1,313	$ 3,231	$ 4,544	$ 43	Aug-07
Mesa	AZ	1,474	849	2,547	—	42	—		—		849	2,589	3,438	228	Aug-04
Peoria	AZ	—	652	—	—	4,102	—		—		652	4,102	4,754	158	Apr-06
Phoenix	AZ	7,400	1,441	7,982	—	203	—		—		1,441	8,185	9,626	535	Jul-05
Phoenix	AZ	—	669	4,135	—	32	—		—		669	4,167	4,836	100	Jan-07
Phoenix	AZ	3,440	552	3,530	—	92	—		—		552	3,622	4,174	141	Jun-06
Alameda	CA	—	2,919	12,984	—	583	—		—		2,919	13,567	16,486	183	Jun-07
Antelope	CA	—	1,525	—	—	—	—		—		1,525	—	1,525	—	
Belmont	CA	—	3,500	—	—	7,328	—		—		3,500	7,328	10,828	69	May-07
Berkley	CA	—	1,716	19,602	—	186	—		—		1,716	19,788	21,504	258	Jun-07
Burbank	CA	8,413	3,199	5,082	—	176	419	(a)	672	(a)	3,618	5,930	9,548	1,068	Aug-00
Casitas	CA	4,386	1,431	2,976	—	37	180	(a)	374	(a)	1,611	3,387	4,998	635	Mar-00
Castro Valley	CA	—	—	6,346	—	59	—		—		—	6,405	6,405	87	Jun-07
Chatsworth	CA	11,200	3,594	11,166	—	354	—		—		3,594	11,520	15,114	731	Jul-05
Claremont	CA	2,624	1,472	2,012	—	31	—		—		1,472	2,043	3,515	189	Jun-04
Colma	CA	—	3,947	22,002	—	220	—		—		3,947	22,222	26,169	303	Jun-07
Compton	CA	—	1,426	—	—	—	—		—		1,426	—	1,426	—	
Culver City	CA	6,000	3,991	10,034	—	—	—		—		3,991	10,034	14,025	—	Dec-07
El Sobrante	CA	—	1,209	4,018	—	8	—		—		1,209	4,026	5,235	56	Jun-07
Elk Grove	CA	6,471	952	6,936	—	—	—		—		952	6,936	7,888	176	Dec-07
Fontana	CA	—	1,246	3,356	—	107	54	(a)	146	(a)	1,300	3,609	4,909	385	Oct-03
Fontana	CA	3,415	961	3,846	—	76	39	(a)	158	(a)	1,000	4,080	5,080	550	Sep-02
Glendale	CA	4,480	—	6,084	—	58	—		—		—	6,142	6,142	570	Jun-04
Hawthorne	CA	3,840	1,532	3,871	—	81	—		—		1,532	3,952	5,484	377	Jun-04
Hayward	CA	2,769	3,149	8,006	—	119	—		—		3,149	8,125	11,274	109	Jun-07
Hemet	CA	5,300	1,146	6,369	—	99	—		—		1,146	6,468	7,614	410	Jul-05
Inglewood	CA	4,233	1,379	3,343	—	258	150	(a)	377	(a)	1,529	3,978	5,507	751	Aug-00
LA Central Ave	CA	5,980	2,200	—	—	—	—		—		2,200	—	2,200	—	
LA Pico/Union	CA	—	3,075	—	—	—	—		—		3,075	—	3,075	—	
Lancaster	CA	—	1,425	—	—	—	—		—		1,425	—	1,425	—	
Lancaster	CA	5,840	1,347	5,827	—	168	—		—		1,347	5,995	7,342	224	Jul-06
Livermore	CA	4,920	1,134	4,615	—	31	—		—		1,134	4,646	5,780	428	Jun-04
Long Beach	CA	6,200	1,403	7,595	—	280	—		—		1,403	7,875	9,278	501	Jul-05
Los Gatos	CA	—	2,550	—	—	—	—		—		2,550	—	2,550	—	
Manteca	CA	3,777	848	2,543	—	49	—		—		848	2,592	3,440	270	Jan-04
Marina Del Rey	CA	18,400	4,248	23,549	—	210	—		—		4,248	23,759	28,007	1,473	Jul-05

Extra Space Storage Inc.
Schedule III (Continued)
Real Estate and Accumulated Depreciation
(Dollars in thousands)

											Gross carrying amount at December 31, 2007				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustments	Notes	Building Adjustments	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Modesto	CA	$ —	$ 909	$ 3,043	$ —	$ 86	$ —		$ —		$ 909	$ 3,129	$ 4,038	$ 43	Jun-07
N Highlands	CA	2,200	696	2,806	—	444	—		—		696	3,250	3,946	218	Jul-05
North Hollywood	CA	—	3,125	9,257	—	32	—		—		3,125	9,289	12,414	378	May-06
Oakland	CA	4,272	—	3,777	—	182	—		494	(a)	—	4,453	4,453	858	Apr-00
Oakland	CA	—	3,024	—	—	—	—		—		3,024	—	3,024	—	
Oceanside	CA	9,700	3,241	11,361	—	325	—		—		3,241	11,686	14,927	739	Jul-05
Pacoima	CA	—	3,050	—	—	—	—		—		3,050	—	3,050	—	
Palmdale	CA	—	1,225	5,379	—	2,094	—		—		1,225	7,473	8,698	465	Jan-05
Pico Rivera	CA	4,513	1,150	3,450	—	52	—		—		1,150	3,502	4,652	547	Aug-00
Pleasanton	CA	—	1,208	4,283	—	173	—		—		1,208	4,456	5,664	72	May-07
Richmond	CA	4,696	953	4,635	—	264	—		—		953	4,899	5,852	446	Jun-04
Riverside	CA	2,620	1,075	4,042	—	268	—		—		1,075	4,310	5,385	369	Aug-04
Sacramento	CA	4,200	852	4,720	—	221	—		—		852	4,941	5,793	325	Jul-05
San Bernardino	CA	3,376	1,213	3,061	—	63	—		—		1,213	3,124	4,337	289	Jun-04
San Bernardino	CA	—	750	—	—	5,134	—		—		750	5,134	5,884	145	Jun-06
San Francisco	CA	13,943	8,457	9,928	—	543	—		—		8,457	10,471	18,928	139	Jun-07
San Leandro	CA	—	4,601	9,777	—	315	—		—		4,601	10,092	14,693	96	Aug-07
Santa Clara	CA	—	4,750	—	—	—	—		—		4,750	—	4,750	—	
Santa Fe Springs	CA	7,184	3,617	7,022	—	44	—		—		3,617	7,066	10,683	38	Oct-07
Sherman Oaks	CA	17,204	4,051	12,152	—	154	—		—		4,051	12,306	16,357	1,036	Aug-04
Simi Valley	CA	—	5,535	—	—	—	—		—		5,535	—	5,535	—	
Stockton	CA	3,217	649	3,272	—	37	—		—		649	3,309	3,958	486	May-02
Thousand Oaks	CA	—	4,500	—	—	—	—		—		4,500	—	4,500	—	
Torrance	CA	6,960	3,710	6,271	—	130	—		—		3,710	6,401	10,111	603	Jun-04
Tracy A	CA	—	946	1,937	—	78	—		—		946	2,015	2,961	245	Apr-04
Tracy D	CA	—	778	2,638	—	57	133	(a)	447	(a)	911	3,142	4,053	355	Jul-03
Vallejo	CA	—	1,177	2,157	—	45	—		—		1,177	2,202	3,379	30	Jun-07
Venice	CA	6,995	2,803	8,410	—	49	—		—		2,803	8,459	11,262	714	Aug-04
Watsonville	CA	3,400	1,699	3,056	—	107	—		—		1,699	3,163	4,862	204	Jul-05
Whittier	CA	2,526	—	2,985	—	11	—		—		—	2,996	2,996	423	Jun-02
Arvada	CO	—	286	1,521	—	253	—		—		286	1,774	2,060	388	Sep-00
Colorado Springs	CO	3,245	781	3,400	—	67	—		—		781	3,467	4,248	29	Aug-07
Denver	CO	2,250	368	1,574	—	54	—		—		368	1,628	1,996	114	Jul-05
Denver	CO	—	602	2,052	—	259	143	(a)	512	(a)	745	2,823	3,568	523	Sep-00
Parker	CO	—	800	4,549	—	74	—		—		800	4,623	5,423	149	Sep-06
Thornton	CO	—	212	2,044	—	388	36	(a)	389	(a)	248	2,821	3,069	566	Sep-00
Westminister	CO	—	291	1,586	—	398	8	(a)	48	(a)	299	2,032	2,331	420	Sep-00

Extra Space Storage Inc.
Schedule III (Continued)
Real Estate and Accumulated Depreciation
(Dollars in thousands)

											Gross carrying amount at December 31, 2007				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustments	Notes	Building Adjustments	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Groton	CT	$ —	$ 1,277	$ 3,992	$ —	$ 236	$ —		$ —		$ 1,277	$ 4,228	$ 5,505	$ 424	Jan-04
Middletown	CT	3,175	932	2,810	—	—	—		—		932	2,810	3,742	—	Dec-07
Wethersfield	CT	—	709	4,205	—	72	—		—		709	4,277	4,986	589	Aug-02
Deland	FL	—	1,318	3,971	—	79	—		—		1,318	4,050	5,368	203	Jan-06
Forest Hill	FL	2,365	1,164	2,511	—	155	82	(a)	180	(a)	1,246	2,846	4,092	548	Aug-00
Fort Myers	FL	4,400	1,985	4,983	—	295	—		—		1,985	5,278	7,263	342	Jul-05
Fort Myers	FL	5,082	1,691	4,711	—	83	—		—		1,691	4,794	6,485	416	Aug-04
Fountainbleau	FL	4,305	1,325	4,395	—	203	114	(a)	388	(a)	1,439	4,986	6,425	969	Aug-00
Ft Lauderdale	FL	4,457	1,587	4,205	—	151	—		—		1,587	4,356	5,943	370	Aug-04
Greenacres	FL	—	1,463	3,244	—	16	—		—		1,463	3,260	4,723	238	Mar-05
Hialeah	FL	—	2,800	—	—	—	—		—		2,800	—	2,800	—	
Hialeah	FL	—	1,750	—	—	—	—		—		1,750	—	1,750	—	
Hollywood	FL	7,400	3,214	8,689	—	5	—		—		3,214	8,694	11,908	28	Nov-07
Hunters Creek	FL	8,200	2,233	9,223	—	51	—		—		2,233	9,274	11,507	674	Mar-05
Kendall	FL	7,885	5,315	4,305	—	130	544	(a)	447	(a)	5,859	4,882	10,741	910	Aug-00
Kendall	FL	—	1,850	—	—	149	(1,850)	(c)	(149)	(c)	—	—	—	—	
Madeira Beach	FL	4,857	1,686	5,163	—	36	—		—		1,686	5,199	6,885	449	Aug-04
Margate	FL	2,736	430	3,139	—	198	39	(a)	287	(a)	469	3,624	4,093	664	Aug-00
Metro West	FL	6,400	1,474	6,101	—	25	—		—		1,474	6,126	7,600	445	Mar-05
Miami	FL	—	1,238	7,597	—	108	—		—		1,238	7,705	8,943	121	May-07
Military Trail	FL	2,536	1,312	2,511	—	174	104	(a)	204	(a)	1,416	2,889	4,305	557	Aug-00
N. Lauderdale	FL	2,327	428	3,516	—	291	31	(a)	260	(a)	459	4,067	4,526	774	Aug-00
Naples	FL	5,400	2,570	5,102	—	142	—		—		2,570	5,244	7,814	343	Jul-05
North Miami	FL	5,848	1,256	6,535	—	155	—		—		1,256	6,690	7,946	629	Jun-04
Ocoee	FL	3,750	872	3,642	—	24	—		—		872	3,666	4,538	272	Mar-05
Orlando	FL	5,290	1,216	5,008	—	66	—		—		1,216	5,074	6,290	442	Aug-04
Port Charlotte	FL	4,481	1,389	4,632	—	58	—		—		1,389	4,690	6,079	409	Aug-04
Riverview	FL	3,591	654	2,953	—	43	—		—		654	2,996	3,650	259	Aug-04
Tamiami	FL	6,100	2,979	5,351	—	183	—		—		2,979	5,534	8,513	356	Jul-05
Tampa	FL	—	1,425	4,766	—	195	—		—		1,425	4,961	6,386	103	Mar-07
Tampa	FL	—	883	3,533	—	66	—		—		883	3,599	4,482	102	Nov-06
Valrico	FL	4,272	1,197	4,411	—	39	—		—		1,197	4,450	5,647	385	Aug-04
Venice	FL	7,096	1,969	5,903	—	127	—		—		1,969	6,030	7,999	301	Jan-06
Waterford Lakes	FL	4,600	1,166	4,816	—	1,074	—		—		1,166	5,890	7,056	378	Mar-05
West Palm Bch	FL	2,600	1,449	2,586	—	204	—		—		1,449	2,790	4,239	194	Jul-05
WPB	FL	4,000	1,752	4,909	—	186	—		—		1,752	5,095	6,847	337	Jul-05
Alpharetta	GA	2,896	1,893	3,161	—	72	—		—		1,893	3,233	5,126	115	Aug-06

(Dollars in thousands)

											Gross carrying amount at December 31, 2007				
Property Name	**State**	**Debt**	**Land initial cost**	**Building and improvements initial cost**	**Land costs subsequent to acquisition**	**Building costs subsequent to acquisition**	**Land Adjustments**	**Notes**	**Building Adjustments**	**Notes**	**Land**	**Building and improvements**	**Total**	**Accumulated depreciation**	**Date acquired or development completed**
Cheshire	GA	$ 8,169	$ 3,737	$ 8,333	$ —	$ 71	$ —		$ —		$ 3,737	$ 8,404	$ 12,141	$ 729	Aug-04
Dacula	GA	3,879	1,993	3,001	—	44	—		—		1,993	3,045	5,038	152	Jan-06
Duluth	GA	—	1,454	4,151	—	54	—		—		1,454	4,205	5,659	56	Jun-07
Meridian	GA	9,600	3,319	8,325	—	105	—		—		3,319	8,430	11,749	635	Feb-05
Roswell	GA	2,813	1,665	2,028	—	35	—		—		1,665	2,063	3,728	179	Aug-04
Snellville	GA	5,210	2,691	4,026	—	73	—		—		2,691	4,099	6,790	356	Aug-04
Stone Mountain	GA	2,049	925	3,505	—	57	—		—		925	3,562	4,487	230	Jul-05
Stone Mountain	GA	4,256	1,817	4,382	—	85	—		—		1,817	4,467	6,284	389	Aug-04
Sugar Hill	GA	—	1,368	2,540	—	60	—		—		1,368	2,600	3,968	35	Jun-07
Sugar Hill	GA	—	1,371	2,547	—	77	—		—		1,371	2,624	3,995	35	Jun-07
Holcomb Bridge	GL	2,445	1,973	1,587	—	45	—		—		1,973	1,632	3,605	145	Aug-04
Kahului	HI	—	3,984	15,044	—	6	—		—		3,984	15,050	19,034	204	Jun-07
Kapolei	HI	—	—	24,701	—	6	—		—		—	24,707	24,707	385	Jun-07
Chicago	IL	3,200	449	2,471	—	284	—		—		449	2,755	3,204	176	Jul-05
Chicago	IL	2,900	472	2,582	—	433	—		—		472	3,015	3,487	182	Jul-05
Chicago	IL	4,400	621	3,428	—	398	—		—		621	3,826	4,447	236	Jul-05
Chicago	IL	—	1,925	—	—	—	—		—		1,925	—	1,925	—	
Crest Hill	IL	—	847	2,946	—	49	121	(a)	424	(a)	968	3,419	4,387	382	Jul-03
Gurnee	IL	117	1,374	—	—	8,299	—		—		1,374	8,299	9,673	44	Oct-07
Naperville	IL	—	2,800	—	—	—	—		—		2,800	—	2,800	—	
North Aurora	IL	—	600	—	—	—	—		—		600	—	600	—	
South Holland	IL	3,175	839	2,879	—	61	26	(a)	89	(a)	865	3,029	3,894	424	Oct-02
Tinley Park	IL	—	1,823	—	—	—	—		—		1,823	—	1,823	—	
Indianapolis	IN	3,013	588	3,457	—	54	—		—		588	3,511	4,099	29	Aug-07
Wichita	KS	2,154	366	1,897	—	150	—		—		366	2,047	2,413	93	Apr-06
Louisville	KY	3,000	586	3,244	—	94	—		—		586	3,338	3,924	224	Jul-05
Louisville	KY	2,841	1,217	4,611	—	65	—		—		1,217	4,676	5,893	301	Jul-05
Louisville	KY	—	892	2,677	—	86	—		—		892	2,763	3,655	144	Dec-05
Metairie	LA	5,419	2,056	4,216	—	62	—		—		2,056	4,278	6,334	371	Aug-04
New Orleans	LA	7,927	4,058	4,325	—	404	—		—		4,058	4,729	8,787	389	Aug-04
Ashland	MA	—	474	3,324	—	133	—		—		474	3,457	3,931	489	Jun-03
Auburn	MA	3,653	918	3,728	—	73	—		—		918	3,801	4,719	704	May-04
Brockton	MA	2,422	647	2,762	—	51	—		—		647	2,813	3,460	448	May-04
Cambridge	MA	—	—	—	—	85	—		—		—	85	85	20	Feb-04
Dedham	MA	—	2,127	3,041	—	321	—		—		2,127	3,362	5,489	519	Mar-02
Dedham II	MA	—	2,443	7,328	—	327	—		—		2,443	7,655	10,098	786	Feb-04
Everett	MA	3,750	692	2,129	—	441	—		—		692	2,570	3,262	151	Jul-05

Extra Space Storage Inc.
Schedule III (Continued)
Real Estate and Accumulated Depreciation
(Dollars in thousands)

											Gross carrying amount at December 31, 2007				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustments	Notes	Building Adjustments	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Foxboro	MA	$ 3,653	$ 759	$ 4,158	$ —	$ 89	$ —		$ —		$ 759	$ 4,247	$ 5,006	$ 901	May-04
Hudson	MA	2,780	806	3,122	—	114	—		—		806	3,236	4,042	687	May-04
Jamaica Plain	MA	8,881	3,285	11,275	—	—	—		—		3,285	11,275	14,560	—	Dec-07
Kingston	MA	—	555	2,491	—	39	—		—		555	2,530	3,085	369	Oct-02
Lynn	MA	2,462	1,703	3,237	—	123	—		—		1,703	3,360	5,063	593	Jun-01
Marshfield	MA	4,776	1,039	4,155	—	53	—		—		1,039	4,208	5,247	400	Mar-04
Milton	MA	—	2,838	3,979	—	3,566	—		—		2,838	7,545	10,383	634	Nov-02
North Bergen	MA	—	2,100	6,606	—	36	—		—		2,100	6,642	8,742	797	Jul-03
Northboro	MA	2,590	280	2,715	—	317	—		—		280	3,032	3,312	530	Feb-01
Norwood	MA	—	2,160	2,336	—	1,302	61	(a)	95	(a)	2,221	3,733	5,954	547	Aug-99
Oxford	MA	1,568	482	1,762	—	109	46	(a)	168	(a)	528	2,039	2,567	421	Oct-99
Plainville	MA	5,400	2,223	4,430	—	133	—		—		2,223	4,563	6,786	337	Jul-05
Quincy	MA	—	1,359	4,078	—	158	—		—		1,359	4,236	5,595	458	Feb-04
Raynham	MA	3,614	588	2,270	—	98	82	(a)	323	(a)	670	2,691	3,361	388	May-00
Saugus	MA	—	1,725	5,514	—	262	—		—		1,725	5,776	7,501	723	Jun-03
Somerville	MA	—	1,728	6,570	—	95	3	(a)	13	(a)	1,731	6,678	8,409	1,020	Jun-01
Stoneham	MA	5,400	944	5,241	—	46	—		—		944	5,287	6,231	336	Jul-05
Stoughton	MA	3,058	1,754	2,769	—	86	—		—		1,754	2,855	4,609	498	May-04
Waltham	MA	—	3,770	11,310	—	170	—		—		3,770	11,480	15,250	1,160	Feb-04
Weymouth	MA	4,607	2,806	3,129	—	38	—		—		2,806	3,167	5,973	621	Sep-00
Woburn	MA	—	—	—	—	134	—		—		—	134	134	29	Feb-04
Worcester	MA	1,771	896	4,377	—	2,136	—		—		896	6,513	7,409	909	May-04
Worcester/Ararat	MA	52	1,350	—	—	4,444	—		—		1,350	4,444	5,794	125	Dec-06
Anapolis	MD	—	1,375	8,896	—	172	—		—		1,375	9,068	10,443	67	Aug-07
Anapolis	MD	7,246	5,248	7,247	—	102	—		—		5,248	7,349	12,597	130	Apr-07
Arnold	MD	9,500	2,558	9,446	—	83	—		—		2,558	9,529	12,087	602	Jul-05
Baltimore	MD	—	800	—	—	—	—		—		800	—	800	—	
Bethesda	MD	12,800	—	18,331	—	152	—		—		—	18,483	18,483	1,152	Jul-05
Columbia	MD	8,400	1,736	9,632	—	94	—		—		1,736	9,726	11,462	612	Jul-05
Edgewood	MD	—	1,000	—	—	—	—		—		1,000	—	1,000	—	
Ft Washington	MD	11,280	4,920	9,174	—	57	—		—		4,920	9,231	14,151	221	Jan-07
Lanham	MD	—	3,346	10,079	—	565	(728)	(b)	—		2,618	10,644	13,262	1,084	Feb-04
Laurel Heights	MD	—	3,000	—	—	5,789	—		—		3,000	5,789	8,789	6	Dec-07
Park Lawn	MD	12,680	4,596	11,328	—	93	—		—		4,596	11,421	16,017	376	Sep-06
Towson	MD	4,100	861	4,742	—	92	—		—		861	4,834	5,695	306	Jul-05
Grandville	MI	1,700	726	1,298	—	189	—		—		726	1,487	2,213	100	Jul-05
Mt Clemens	MI	2,100	798	1,796	—	128	—		—		798	1,924	2,722	128	Jul-05

Extra Space Storage Inc.
Schedule III (Continued)
Real Estate and Accumulated Depreciation
(Dollars in thousands)

											Gross carrying amount at December 31, 2007				
Property Name	**State**	**Debt**	**Land initial cost**	**Building and improvements initial cost**	**Land costs subsequent to acquisition**	**Building costs subsequent to acquisition**	**Land Adjustments**	**Notes**	**Building Adjustments**	**Notes**	**Land**	**Building and improvements**	**Total**	**Accumulated depreciation**	**Date acquired or development completed**
Florissant	MO	$ 3,533	$ 1,241	$ 4,648	$ —	$ 163	$ —		$ —		$ 1,241	$ 4,811	$ 6,052	$ 44	Aug-07
Forest Park	MO	1,156	156	1,313	—	160	17	(a)	151	(a)	173	1,624	1,797	330	Jun-00
Grandview	MO	1,100	612	1,770	—	152	—		—		612	1,922	2,534	134	Jul-05
Halls Ferry	MO	2,283	631	2,159	—	162	59	(a)	205	(a)	690	2,526	3,216	482	Jun-00
St Louis	MO	3,963	1,444	4,162	—	110	—		—		1,444	4,272	5,716	38	Aug-07
St Louis	MO	2,819	676	3,551	—	114	—		—		676	3,665	4,341	33	Aug-07
Merrimack	NH	3,725	754	3,299	—	69	63	(a)	279	(a)	817	3,647	4,464	487	Apr-99
Nashua	NH	—	—	755	—	58	—		—		—	813	813	53	Jul-05
Avenel	NJ	8,080	1,518	8,037	—	43	—		—		1,518	8,080	9,598	608	Jan-05
Bayville	NJ	5,300	1,193	5,312	—	95	—		—		1,193	5,407	6,600	430	Dec-04
Bellmawr	NJ	4,134	3,600	—	—	—	—		—		3,600	—	3,600	—	
Edison	NJ	6,659	2,519	8,547	—	207	—		—		2,519	8,754	11,273	1,381	Dec-01
Egg Harbor	NJ	5,493	1,724	5,001	—	270	—		—		1,724	5,271	6,995	851	Dec-01
Ewing	NJ	5,060	1,552	—	11	4,765	—		—		1,563	4,765	6,328	117	Mar-07
Glen Rock	NJ	4,051	1,109	2,401	—	71	113	(a)	246	(a)	1,222	2,718	3,940	366	Mar-01
Hackensack	NJ	9,500	2,283	11,234	—	375	—		—		2,283	11,609	13,892	735	Jul-05
Hazlet	NJ	10,560	1,362	10,262	—	225	—		—		1,362	10,487	11,849	1,635	Dec-01
Hoboken	NJ	8,206	2,687	6,092	—	69	—		—		2,687	6,161	8,848	870	Jul-02
Howell	NJ	3,032	2,440	3,407	—	141	—		—		2,440	3,548	5,988	577	Dec-01
Lawrenceville	NJ	11,946	3,402	10,230	—	204	—		—		3,402	10,434	13,836	1,058	Feb-04
Linden	NJ	6,700	1,517	8,384	—	73	—		—		1,517	8,457	9,974	535	Jul-05
Lumberton	NJ	4,925	831	4,060	—	40	—		—		831	4,100	4,931	345	Dec-04
Lyndhurst	NJ	6,894	2,679	4,644	—	98	250	(a)	437	(a)	2,929	5,179	8,108	695	Mar-01
Metuchen	NJ	—	1,153	4,462	—	80	—		—		1,153	4,542	5,695	700	Dec-01
Morrisville	NJ	—	2,487	7,494	—	1,009	—		—		2,487	8,503	10,990	841	Feb-04
Neptune	NJ	—	4,204	8,906	—	94	—		—		4,204	9,000	13,204	253	Nov-06
North Bergen	NJ	11,000	2,299	12,728	—	96	—		—		2,299	12,824	15,123	806	Jul-05
Old Bridge	NJ	5,714	2,758	6,450	—	320	—		—		2,758	6,770	9,528	1,086	Dec-01
Parlin	NJ	6,700	2,517	4,516	—	265	—		—		2,517	4,781	7,298	347	Jul-05
Parlin	NJ	4,209	—	5,273	—	74	—		—		—	5,347	5,347	1,033	May-04
Tom's River	NJ	8,300	1,790	9,935	—	138	—		—		1,790	10,073	11,863	657	Jul-05
Union	NJ	—	1,754	6,237	—	78	—		—		1,754	6,315	8,069	507	Dec-04
Woodbridge	NJ	3,910	505	4,524	—	213	—		—		505	4,737	5,242	780	Dec-01
Albuquerque	NM	4,216	1,298	4,628	—	115	—		—		1,298	4,743	6,041	39	Aug-07
Lamont St.	NV	1,015	251	717	—	176	27	(a)	87	(a)	278	980	1,258	188	Feb-00
Las Vegas	NV	3,900	748	4,131	—	349	—		—		748	4,480	5,228	310	Jul-05
Bohemia	NY	1,762	1,456	1,398	—	7	—		—		1,456	1,405	2,861	2	Dec-07

Extra Space Storage Inc.
Schedule III (Continued)
Real Estate and Accumulated Depreciation
(Dollars in thousands)

											Gross carrying amount at December 31, 2007				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustments	Notes	Building Adjustments	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Fordham	NY	$ 9,817	$ 3,995	$ 11,870	$ —	$ 366	$ —		$ —		$ 3,995	$ 12,236	$ 16,231	$ 1,105	Aug-04
Mt Vernon	NY	5,100	1,585	6,025	—	489	—		—		1,585	6,514	8,099	414	Jul-05
Mt Vernon	NY	—	1,926	7,622	—	409	—		—		1,926	8,031	9,957	1,003	Nov-02
Nanuet	NY	3,792	2,072	4,644	60	100	—		—		2,132	4,744	6,876	719	Feb-02
New Paltz	NY	5,000	2,059	3,715	—	117	—		—		2,059	3,832	5,891	259	Jul-05
New York	NY	16,400	3,060	16,978	—	401	—		—		3,060	17,379	20,439	1,104	Jul-05
Plainview	NY	—	4,287	3,710	—	272	—		—		4,287	3,982	8,269	716	Dec-00
Columbus	OH	2,900	483	2,654	—	320	—		—		483	2,974	3,457	213	Jul-05
Columbus	OH	1,500	374	2,059	—	55	—		—		374	2,114	2,488	147	Jul-05
Columbus	OH	3,800	601	3,336	—	70	—		—		601	3,406	4,007	222	Jul-05
Kent	OH	1,500	220	1,206	—	96	—		—		220	1,302	1,522	99	Jul-05
Aloha	OR	6,200	1,221	6,262	—	62	—		—		1,221	6,324	7,545	410	Jul-05
King City	OR	—	2,520	—	—	—	—		—		2,520	—	2,520	—	
Banksville	PA	2,039	991	1,990	—	279	91	(a)	199	(a)	1,082	2,468	3,550	438	Aug-00
Bensalem	PA	—	1,131	4,525	—	103	—		—		1,131	4,628	5,759	371	Dec-04
Bensalem	PA	—	750	3,015	—	67	—		—		750	3,082	3,832	142	Mar-06
Doylestown	PA	3,797	220	3,442	—	154	24	(a)	384	(a)	244	3,980	4,224	528	Nov-99
Kennedy	PA	2,526	736	3,173	—	67	—		—		736	3,240	3,976	601	May-04
Penn Ave	PA	2,939	889	4,117	—	133	—		—		889	4,250	5,139	752	May-04
Philadelphia	PA	9,000	1,470	8,162	—	640	—		—		1,470	8,802	10,272	558	Jul-05
Philadelphia	PA	—	1,965	5,925	—	765	—		—		1,965	6,690	8,655	667	Feb-04
Johnston	RI	7,100	2,658	4,799	—	166	—		—		2,658	4,965	7,623	330	Jul-05
Charleston	SC	3,791	1,279	4,171	—	27	—		—		1,279	4,198	5,477	368	Aug-04
Columbia	SC	3,182	838	3,312	—	52	—		—		838	3,364	4,202	291	Aug-04
Goose Creek	SC	4,184	1,683	4,372	—	38	—		—		1,683	4,410	6,093	380	Aug-04
Summerville	SC	3,591	450	4,454	—	58	—		—		450	4,512	4,962	393	Aug-04
Cordova	TN	2,700	852	2,720	—	90	—		—		852	2,810	3,662	194	Jul-05
Cordova	TN	6,900	1,351	7,476	—	120	—		—		1,351	7,596	8,947	498	Jul-05
Cordova	TN	—	894	2,680	—	13	—		—		894	2,693	3,587	64	Jan-07
Memphis	TN	2,100	976	1,725	—	161	—		—		976	1,886	2,862	142	Jul-05
Memphis	TN	3,100	814	2,766	—	66	—		—		814	2,832	3,646	197	Jul-05
Nashville	TN	2,960	390	2,598	—	111	—		—		390	2,709	3,099	120	Apr-06
Allen	TX	—	901	5,553	—	56	—		—		901	5,609	6,510	159	Nov-06
Arlington	TX	2,020	534	2,525	—	101	—		—		534	2,626	3,160	235	Aug-04
Austin	TX	2,400	1,105	2,313	—	113	—		—		1,105	2,426	3,531	186	Jul-05
Austin	TX	3,944	870	4,455	—	51	—		—		870	4,506	5,376	398	Aug-04
Culebra	TX	2,068	1,269	1,816	—	87	—		—		1,269	1,903	3,172	168	Aug-04

Extra Space Storage Inc.
Schedule III (Continued)
Real Estate and Accumulated Depreciation
(Dollars in thousands)

											Gross carrying amount at December 31, 2007				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustments	Notes	Building Adjustments	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Dallas	TX	$ 4,400	$ 1,010	$ 5,547	$ —	$ 159	$ —		$ —		$ 1,010	$ 5,706	$ 6,716	$ 368	Jul-05
Dallas	TX	11,700	1,980	12,501	—	100	—		—		1,980	12,601	14,581	517	May-06
Dallas	TX	2,080	337	2,216	—	170	—		—		337	2,386	2,723	109	Apr-06
Dallas	TX	6,332	4,432	6,181	—	79	—		—		4,432	6,260	10,692	552	Aug-04
Fort. Worth	TX	3,880	631	5,794	—	54	—		—		631	5,848	6,479	510	Aug-04
Grand Prairie	TX	2,204	551	2,330	—	34	—		—		551	2,364	2,915	207	Aug-04
Houston	TX	3,400	749	4,122	—	132	—		—		749	4,254	5,003	287	Jul-05
Houston	TX	4,939	2,596	8,735	—	96	—		—		2,596	8,831	11,427	382	Apr-06
Plano	TX	3,300	1,613	2,871	—	72	—		—		1,613	2,943	4,556	240	Jul-05
Plano	TX	—	1,010	6,203	—	56	—		—		1,010	6,259	7,269	177	Nov-06
Plano	TX	—	614	3,775	—	79	—		—		614	3,854	4,468	110	Nov-06
Rowlette	TX	—	1,002	2,601	—	58	—		—		1,002	2,659	3,661	92	Aug-06
San Antonio	TX	—	2,471	3,556	—	—	—		—		2,471	3,556	6,027	4	Dec-07
South Houston	TX	2,700	478	4,069	—	181	—		—		478	4,250	4,728	184	Apr-06
Westchase	TX	1,812	253	1,496	—	34	—		—		253	1,530	1,783	136	Aug-04
Kearns	UT	2,520	642	2,607	—	108	—		—		642	2,715	3,357	256	Jun-04
West Valley City	UT	2,000	461	1,722	—	43	—		—		461	1,765	2,226	117	Jul-05
Wethersfield	UT	4,000	1,349	4,372	—	82	—		—		1,349	4,454	5,803	286	Jul-05
Alexandria	VA	6,749	1,620	13,103	—	56	—		—		1,620	13,159	14,779	178	Jun-07
Falls Church	VA	6,200	1,259	6,975	—	179	—		—		1,259	7,154	8,413	448	Jul-05
Fred Oaks Rd	VA	5,100	2,067	4,261	—	91	—		—		2,067	4,352	6,419	291	Jul-05
West Broad	VA	5,723	2,305	5,467	—	49	—		—		2,305	5,516	7,821	478	Aug-04
Lakewood	WA	4,600	1,917	5,256	—	89	—		—		1,917	5,345	7,262	254	Feb-06
Lakewood	WA	4,597	1,389	4,780	—	124	—		—		1,389	4,904	6,293	234	Feb-06
Seattle	WA	7,400	2,727	7,241	—	120	—		—		2,727	7,361	10,088	467	Jul-05
Tacoma	WA	—	1,031	3,103	—	63	—		—		1,031	3,166	4,197	153	Feb-06
Miscellaneous other		(122)	849	2,202	—	1,570	—		—		849	3,772	4,621	1,133	
Construction in progress		—	—	—	—	49,945	—		—		—	49,945	49,945	—	
Intangible tenant relationships and lease rights		—	—	38,323	—	—	—		—		—	38,323	38,323	26,976	
		$950,181	$ 464,072	$ 1,362,886	$ 71	$ 137,283	$ 481		$ 8,334		$ 464,624	$ 1,508,503	$ 1,973,127	$ 131,805	

(a) Adjustments relate to the acquistion of joint venture partners interests

(b) Adjustment relates to partial disposition of land

(c) Adjustment relates to complete disposition of land

Extra Space Storage Inc.
Schedule III (Continued)
Real Estate and Accumulated Depreciation
(Dollars in thousands)

Activity in real estate facilities during the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Operating facilities			
Balance at beginning of year	$ 1,475,674	$ 1,260,211	$ 723,275
Acquisitions	400,902	189,725	521,510
Improvements	17,679	12,445	3,977
Transfers from construction in progress	30,926	14,096	11,449
Dispositions and other	(1,999)	(803)	—
Balance at end of year	$ 1,923,182	$ 1,475,674	$ 1,260,211
Accumulated depreciation:			
Balance at beginning of year	$ 93,619	$ 58,252	$ 28,339
Depreciation expense	38,186	35,367	29,913
Dispositions and other	—	—	—
Balance at end of year	$ 131,805	$ 93,619	$ 58,252
Construction in progress			
Balance at beginning of year	$ 35,336	$ 10,719	$ 1,963
Current developent	45,764	38,915	22,005
Transfers to operating facilities	(30,926)	(14,096)	(11,449)
Dispositions and other	(229)	(202)	(1,800)
Balance at end of year	$ 49,945	$ 35,336	$ 10,719
Net real estate assets	$ 1,841,322	$ 1,417,391	$ 1,212,678

The aggregate cost of real estate for U.S. federal income tax purposes is $1,923,182

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

(i) 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 (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 for considering the materiality of information and determining the disclosure obligations of the Company on a timely basis. The disclosure committee meets quarterly and reports directly to our Chief Executive Officer and Chief Financial Officer.

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

(ii) Internal Control over Financial Reporting

(a) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(b) Attestation Report of the Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Extra Space Storage Inc.

We have audited Extra Space Storage Inc. (the "Company")'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statement of operations, redeemable units and members' and stockholders' equity, and cash flows for the year ended December 31, 2007 of Extra Space Storage Inc. and our report dated February 28, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 28, 2008

(c) Changes in Internal Control over Financial Reporting

There was no change 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 has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

On October 19, 2007, we entered into a new $100.0 million revolving line of credit (the "Credit Line") that matures October 31, 2010. We intend to use the proceeds of the Credit Line for general corporate purposes. The Credit Line has an interest rate of between 100 and 205 basis points over LIBOR, depending on certain of our financial ratios. The Credit Line is collateralized by mortgages on certain real estate assets. As of December 31, 2007, the Credit Line had approximately $100.0 million of capacity based on the assets collateralizing the Credit Line. No amounts were outstanding on the Credit Line at December 31, 2007.

On December 31, 2007, we entered into a subscription agreement (the "Subscription Agreement") and associated purchase agreements to acquire Extra Space Development ("ESD"), a related party, and its related assets for aggregate consideration of approximately $46.7 million, including approximately $21.5 million of cash and $25.2 million of assumed debt and other liabilities. As part of this transaction, we purchased (1) three wholly-owned properties located in California, Connecticut, and Massachusetts, (2) a 70% ownership interest in a consolidated joint venture that owns one property located in California, (3) a 5% ownership interest in an unconsolidated joint venture that owns five properties located in California, and (4) a 10% ownership interest in an unconsolidated joint venture that owns six properties located in Florida, Illinois, Massachusetts, New York and Rhode Island. The independent members of our board of directors reviewed and approved the acquisition of ESD.

As described in our previous filings with the Securities and Exchange Commission, we had management agreements to manage these self storage properties for ESD in exchange for a 6% management fee. For the year ended December 31, 2007, we received $0.7 million from ESD for property management services in 2007. ESD was owned by third-party individuals as well as by executive officers and directors in the following approximate percentages: Spencer Kirk, President and Director (33%), Kenneth M. Woolley, Chairman and Chief Executive Officer (33%), Richard S. Tanner, Senior Vice President, Development (7%), Kent Christensen, Executive Vice President and Chief Financial Officer (3%), and Charles L. Allen, Executive Vice President and Chief Legal Officer (2%).

The foregoing description of the Credit Line and acquisition of ESD does not purport to be complete and is qualified in its entirety by reference to the complete text of the Credit Line and Subscription Agreement, which are filed as exhibits to this report and incorporated herein by reference.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

As required by Section 303A.12(a) of the NYSE Listed Company Manual, our Chief Executive Officer made his annual certification to the NYSE stating that he was not aware of any violation by our Company of the corporate governance listing standards of the NYSE. In addition, we have filed, as exhibits to this Annual Report on Form 10-K, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 to be filed with the Securities and Exchange Commission regarding the quality of our public disclosure.

Information required by this item is incorporated by reference to the information set forth under the captions "Item 1—Election of Directors," "Executive Officers," "Information about the Board of Directors and its Committees," and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2007.

We have adopted a Code of Business Conduct and Ethics in compliance with rules of the Securities and Exchange Commission that applies to all of our personnel, including our Board of Directors, Chief Executive Officer, Chief Financial Officer and principal accounting officer. The Code of Business Conduct and Ethics is available free of charge on the "Investor Info—Corporate Governance" section of our web site at www.extraspace.com. We intend to satisfy any disclosure requirements under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our web site at the address and location specified above.

The Board of Directors has adopted Corporate Governance Guidelines and charters for our Audit Committee and Compensation, Nominating and Governance Committee, each of which is posted on our website at the address and location specified above. Investors may obtain a free copy of the Code of Business Conduct and Ethics, the Corporate Governance Guidelines and the committee charters by contacting the Investor Relations Department at 2795 East Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121, Attn: James Overturf or by telephoning (801) 562-5556.

Item 11. Executive Compensation

Information with respect to executive compensation is incorporated by reference to the information set forth under the caption "Executive Compensation" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2007.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information with respect to security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference to the information set forth under the captions "Voting—Principal Stockholders," "Security Ownership of Directors and Officers" and "Equity Compensation Plan Information" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2007.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information with respect to certain relationships and related transactions is incorporated by reference to the information set forth under the captions "Information about the Board of Directors and its Committees" and "Certain Relationships and Related Transactions" in our Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2007.

Item 14. Principal Accountant Fees and Services

Information with respect to principal accountant fees and services is incorporated by reference to the information set forth under the caption "Item 2. Ratification of Appointment of Independent Registered Public Accounting Firm" in our Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2007.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

(1) and (2). All Financial Statements and Financial Statement Schedules filed as part of this Annual Report on 10-K are included in Item 8—"Financial Statements and Supplementary Data" of this Annual Report on 10-K and reference is made thereto.

(3) The following documents are filed or incorporated by references as exhibits to this report:

Exhibit Number	Description
2.1	Purchase and Sale Agreement, dated May 5, 2005 by and among Security Capital Self Storage Incorporated, as seller and Extra Space Storage LLC, PRISA Self Storage LLC, PRISA II Self Storage LLC, PRISA III Self Storage LLC, VRS Self Storage LLC, WCOT Self Storage LLC and Extra Space Storage LP, as purchaser parties and The Prudential Insurance Company of America (incorporated by reference from Exhibit 2.1 of Form 8-K filed on May 11, 2005).
3.1	Amended and Restated Articles of Incorporation of Extra Space Storage Inc.(1)
3.2	Articles of Amendment dated September 28, 2007 (incorporated by reference from Exhibit 3.1 of Form 8-K filed on October 3, 2007).
3.3	Bylaws of Extra Space Storage Inc.(1)
3.4	Second Amended and Restated Agreement of Limited Partnership of Extra Space Storage LP (incorporated by reference from Exhibit 10.1 of Form 8-K filed on June 26, 2007).
3.5	Declaration of Trust of ESS Holdings Business Trust I.(1)
3.6	Declaration of Trust of ESS Holdings Business Trust II.(1)
4.1	Junior Subordinated Indenture dated as of July 27, 2005, between Extra Space Storage LP and JPMorgan Chase Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 of Form 8-K filed on August 2, 2005).
4.2	Amended and Restated Trust Agreement, dated as of July 27, 2005, among Extra Space Storage LP, as depositor and JPMorgan Chase Bank, National Association, as property trustee, Chase Bank USA, National Association, as Delaware trustee, the Administrative Trustees named therein and the holders of undivided beneficial interest in the assets of ESS Statutory Trust III (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005).
4.3	Form of Junior Subordinated Note—included in Exhibit 4.1 hereto (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005).
4.4	Form of Trust Preferred Security Certificate—included in Exhibit 4.2 hereto (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005).
4.5	Indenture, dated March 27, 2007 among Extra Space Storage LP, Extra Space Storage Inc. and Wells Fargo Bank, N.A., as trustee, including the form of 3.625% Exchangeable Senior Notes due 2027 and form of guarantee (incorporated by reference from Exhibit 4.1 of Form 8-K filed on March 28, 2007).
10.1	Registration Rights Agreement, by and among Extra Space Storage Inc. and the parties listed on Schedule I thereto.(1)
10.2	License between Centershift Inc. and Extra Space Storage LP.(1)

10.3	Loan Agreement, dated as of March 8, 2004, by and between General Electric Capital Corporation and Extra Space Properties Eight LLC.(1)
10.4	Loan Agreement, dated as of March 8, 2004, by and between General Electric Capital Corporation and Extra Space Properties Three LLC.(1)
10.5	Loan Agreement, dated as of March 8, 2004, by and between General Electric Capital Corporation and Extra Space of New Jersey, L.L.C.(1)
10.6	Loan Agreement, dated as of May 4, 2004, by and between Extra Space of Northborough LLC, Extra Space of Whittier LLC, Extra Space of Stockton LLC, Extra Space of Weymouth LLC, and Extra Space of Lynn LLC, and Bank of America, N.A.(1)
10.7	Loan Agreement, dated as of May 4, 2004, by and between Extra Space Properties Ten LLC and Bank of America, N.A.(1)
10.8	Loan Agreement, dated as of May 4, 2004, by and between Extra Space of Raynham LLC, Extra Space of Doylestown LLC, Extra Space of Glen Rock LLC, Extra Space of Fontana One LLC, and Extra Space of Merrimack LLC, and Bank of America, N.A.(1)
10.9	2004 Long-Term Compensation Incentive Plan.(1)
10.10	Extra Space Storage Performance Bonus Plan.(1)
10.11	Employment Agreement, dated July 27, 2004, by and between Extra Space Storage Inc. and Kenneth M. Woolley.(1)
10.12	Employment Agreement, dated July 27, 2004, by and between Extra Space Storage Inc. and Kent W. Christensen.(1)
10.13	Employment Agreement, dated July 27, 2004, by and between Extra Space Storage Inc. and Charles L. Allen. (1)
10.14	Form of 2004 Long Term Incentive Compensation Plan Option Award Agreement for Employees with employment agreements. (Incorporated by reference from Exhibit 10.14 of Form 10-K filed on March 15, 2005).
10.15	Form of 2004 Long Term Incentive Compensation Plan Option Award Agreement for employees without employment agreements. (Incorporated by reference from Exhibit 10.15 of Form 10-K filed on March 15, 2005).
10.16	Form of 2004 Non-Employee Directors Share Plan Option Award Agreement for Directors. (Incorporated by reference from Exhibit 10.16 of Form 10-K filed on March 15, 2005).
10.17	Joint Venture Agreement, dated June 1, 2004, by and between Extra Space Storage LLC and Prudential Financial, Inc.(1)
10.18	Purchase Agreement, by and between Extra Space Storage LLC and Fidelity Management Trust Company.(1)
10.19	Membership Interest Purchase Agreement, dated April 27, 2004, by and between Extra Space Storage LLC and Strategic Performance Fund-II, Inc.(1)
10.20	Promissory Note dated April 28, 2004 from Extra Space Storage payable to Strategic Performance Fund-II, Inc.(1)
10.21	Purchase and Sale Agreement, by and between Extra Space Storage LLC and Extra Space West One LLC.(1)

10.22	Extra Space Storage Non-Employee Director Plan (incorporated by reference from Exhibit 10.22 of Form 10-K/A filed on March 22, 2007).
10.23	Purchase Agreement, dated June 20, 2005, among Extra Space Storage Inc. and the investors named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on June 24, 2005).
10.24	Registration Rights Agreement, dated June 20, 2005, among Extra Space Storage Inc. and the investors named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on June 24, 2005).
10.25	Purchase Agreement, dated as of July 27, 2005, among Extra Space Storage LP, ESS Statutory Trust III and the Purchaser named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on August 2, 2005).
10.26	Purchase Agreement, dated as of July 27, 2005, among Extra Space Storage LP, ESS Statutory Trust III and the Purchaser named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on August 2, 2005).
10.27	Purchase and Sale Agreement, dated as of December 8, 2006 between Extra Space Storage LLC (Purchaser) and various limited partnerships affiliated with AAAAA Rent-A-Space (collectively, Sellers) (incorporated by reference from Exhibit 10.27 of Form 10-K filed on February 28, 2007).
10.28	Employment Agreement, dated July 26, 2006, by and between Extra Space Storage Inc. and Karl Haas (incorporated by reference from Exhibit 10.28 of Form 10-K/A filed on March 22, 2007).
10.29	Registration Rights Agreement, dated March 27, 2007, among Extra Space Storage LP, Extra Space Storage Inc., Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference from Exhibit 10.1 of Form 8-K filed on March 28, 2007).
10.30	Contribution Agreement, dated June 15, 2007, among Extra Space Storage LP and various limited partnerships affiliated with AAAAA Rent-A-Space (incorporated by reference to Exhibit 10.1 of Form 8-K filed on June 18, 2007).
10.31	Promissory Note, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.2 of Form 8-K filed on June 26, 2007).
10.32	Pledge Agreement, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.3 of Form 8-K filed on June 26, 2007).
10.33	Form of Registration Rights Agreement among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.4 of Form 8-K filed on June 26, 2007).
10.34	First Amendment to Contribution Agreement and to Agreement Regarding Transfer of Series A Units, dated September 28, 2007, among Extra Space Storage LP, various limited partnerships affiliated with AAAAA Rent-A-Space, H. James Knuppe. (incorporated by reference to Exhibit 10.1 of Form 8-K filed on October 3, 2007).
10.35	2004 Long Term Incentive Compensation Plan Restricted Stock Award Agreement (incorporated by reference from Exhibit 10.2 of Form 10-Q filed on November 7, 2007).

10.36	First Amendment to Extra Space Storage Inc. 2004 Long Term Incentive Plan (incorporated by reference from Exhibit 10.3 of Form 10-Q filed on November 7, 2007).
10.37	First Amendment to Extra Space Storage Inc. 2004 Non-Employee Directors' Share Plan (incorporated by reference from Exhibit 10.4 of Form 10-Q filed on November 7, 2007).
10.38	Loan Agreement between ESP Seven Subsidiary LLC as Borrower and General Electric Capital Corporation as Lender, dated October 16, 2007(2)
10.39	Subscription Agreement, dated December 31, 2007, among Extra Space Storage LLC and Extra Space Development, LLC(2)
14.0	Code of Business Conduct and Ethics (incorporated by reference from our Annual Report on Form 10-K filed on March 15, 2005).
21.1	Subsidiaries of the Company(2)
23.1	Consent of Ernst & Young LLP
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	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.

(1) Incorporated by reference from our Registration Statement on Form S-11 (File No. 333-115436 dated August 11, 2004).

(2) Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 29, 2008		EXTRA SPACE STORAGE INC.
	By:	/s/ KENNETH M. WOOLLEY
		Kenneth M. Woolley *Chairman and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 29, 2008	By:	/s/ KENNETH M. WOOLLEY
		Kenneth M. Woolley *Chairman and Chief Executive Officer* *(Principal Executive Officer)*
Date: February 29, 2008	By:	/s/ KENT W. CHRISTENSEN
		Kent W. Christensen *Executive Vice President and Chief Financial Officer* *(Principal Financial Officer)*
Date: February 29, 2008	By:	/s/ P. SCOTT STUBBS
		P. Scott Stubbs *Senior Vice President Finance and Accounting* *(Principal Accounting Officer)*
Date: February 29, 2008	By:	/s/ SPENCER F. KIRK
		Spencer F. Kirk *President and Director*
Date: February 29, 2008	By:	/s/ JOSEPH D. MARGOLIS
		Joseph D. Margolis *Director*
Date: February 29, 2008	By:	/s/ ROGER B. PORTER
		Roger B. Porter *Director*
Date: February 29, 2008	By:	/s/ K. FRED SKOUSEN
		K. Fred Skousen *Director*

Exhibit 10.38

LOAN AGREEMENT

between

ESP SEVEN SUBSIDIARY LLC
as Borrower

and

GENERAL ELECTRIC CAPITAL CORPORATION
as Lender

October 16, 2007

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LIST OF EXHIBITS AND SCHEDULES

LIST OF DEFINED TERMS

LOAN AGREEMENT

This Loan Agreement (this "**Agreement**") is entered into as of October 16, 2007 between **GENERAL ELECTRIC CAPITAL CORPORATION**, a Delaware corporation ("**Lender**"), and **ESP SEVEN SUBSIDIARY LLC**, a Delaware limited liability company ("**Borrower**").

ARTICLE 1

CERTAIN DEFINITIONS

Section 1.1 **Certain Definitions**. As used herein, the following terms have the meanings indicated:

"**Additional Project**" has the meaning assigned in Section 2.9.

"**Affiliate**" means, as to any Person, (a) any corporation in which such Person or any partner, shareholder, director, officer, member, or manager of such Person, at any level, directly or indirectly owns or controls more than ten percent (10%) of the beneficial interest, (b) any partnership, joint venture or limited liability company in which such Person or any partner, shareholder, director, officer, member, or manager of such Person, at any level, is a partner, joint venturer or member, (c) any trust in which such Person or any partner, shareholder, director, officer, member or manager of such Person, at any level, or any individual related by birth, adoption or marriage to such Person, is a trustee or beneficiary, (d) any entity of any type which is directly or indirectly owned or controlled by (or is under common control with) such Person or any partner, shareholder, director, officer, member or manager of such Person, at any level, (e) any partner, shareholder, director, officer, member, manager or employee of such Person, or (f) any individual related by birth, adoption or marriage to any partner, shareholder, director, officer, member, manager, or employee of such Person. Each Borrower Party shall be deemed to be an Affiliate of Borrower.

"**Agreement**" means this Loan Agreement.

"**Anti-Money Laundering Laws**" means those laws, regulations and sanctions, state and federal, criminal and civil, that (a) limit the use of and/or seek the forfeiture of proceeds from illegal transactions; (b) limit commercial transactions with designated countries or individuals believed to be terrorists, narcotics dealers or otherwise engaged in activities contrary to the interests of the United States; (c) require identification and documentation of the parties with whom a Financial Institution conducts business; or (d) are designed to disrupt the flow of funds to terrorist organizations. Such laws, regulations and sanctions shall be deemed to include the Patriot Act, the Bank Secrecy Act, the Trading with the Enemy Act, 50 U.S.C. App. Section 1 et seq., the International Emergency Economic Powers Act, 50 U.S.C. Section 1701 et seq., and the sanction regulations promulgated pursuant thereto by the OFAC, as well as laws relating to prevention and detection of money laundering in 18 U.S.C. Sections 1956 and 1957.

"**Applicable Margin**" means, for each calendar quarter, the applicable amount for such quarter, as determined in accordance with Section 2.2(1).

"**Assignment of Rents and Leases**" means each Assignment of Rents and Leases, executed by Borrower or a Subsidiary for the benefit of Lender, and pertaining to leases of space in a Project.

"**Average Daily Balance**" means, for any calendar quarter, the mean average daily closing balance of the Loan during such calendar quarter.

"**Bank Secrecy Act**" means the Bank Secrecy Act, 31 U.S.C. Sections 5311 et seq.

"**Borrower Party**" means any Joinder Party, each Subsidiary, Extra Space of Pennsylvania LLC, a Utah limited liability company, Extra Space Management, Inc., a Utah corporation, ESP 7, and Extra Space of Pennsylvania Two LLC, a Utah limited liability company, and any general partner or managing member in Borrower, at any level.

"**Borrowing Base**" means, as of any date of determination, an amount equal to the least of (a) the Maximum Commitment, (b) eighty-five percent (85%) of the sum of the Valuation Amounts of all Projects then serving as Collateral and (c) the principal amount that would result in a Debt Service Coverage of 1.15:1.00; provided, however, the Valuation Amount and Underwritten NOI of the "1195 Lanham, MD" Project shall be excluded from Borrowing Base calculations until such time as Lender has received evidence reasonably acceptable to Lender that (i) the Mortgage covering such Project has been recorded in the appropriate real property records and (ii) all state and county taxes for such Mortgage have been paid in full; provided further, that if the preceding clauses (i) and (ii) have not been satisfied on or before the date which is ninety (90) days after the Closing Date, the Valuation Amount and Underwritten NOI of the "1195 Lanham, MD" Project shall be permanently excluded from Borrowing Base calculations and the Mortgage executed by Extra Space of Lanham LLC shall be retuned to Borrower.

"**Business Day**" means a day other than a Saturday, a Sunday, or a legal holiday on which national banks located in the State of New York are not open for general banking business.

"**Closing Date**" means the date of the "gap" closing (i.e., upon the Title Company's irrevocable written commitment to issue to Lender the Title Insurance Policies and Lender's acknowledgment of the satisfaction of the other conditions set forth in Part A of Schedule 2.1).

"**Collateral**" means the Projects and all other "Mortgaged Property" described in the Mortgages, and any other property that at any time secures the Loan or any portion thereof.

"**Contract Rate**" has the meaning assigned in Article 2.

"**Contribution Agreement**" means that certain Contribution and Indemnity Agreement of even date herewith executed by Borrower and the Subsidiaries in favor of each other.

"**Debt**" means, for any Person, without duplication: (a) all indebtedness of such Person for borrowed money, for amounts drawn under a letter of credit, or for the deferred purchase price of property for which such Person or any of its assets is liable, (b) all unfunded amounts under a loan agreement, letter of credit, or other credit facility for which such Person or any of its assets would be liable or subject, if such amounts were advanced under the credit facility, (c) all amounts required to be paid by such Person as a guaranteed payment to partners or a preferred or special dividend, including any mandatory redemption of shares or interests, but not including any REIT Distributions, (d) all indebtedness guaranteed by such Person, directly or indirectly, (e) all obligations under leases that constitute capital leases for which such Person or any of its assets is liable or subject, and (f) all obligations of such Person under interest rate swaps, caps, floors, collars and other interest hedge agreements, in each case whether such Person or any of its assets is liable or subject, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such Person otherwise assures a creditor against loss.

"**Debt Service**" means the aggregate interest, fixed principal, and other payments due under the Loan (and under any other permitted Debt relating to the Projects expressly approved by Lender), but not including Excess, for the period of time for which calculated (unless otherwise noted). The foregoing calculation shall exclude payments applied to escrows or reserves required by Lender.

"**Debt Service Coverage**" means, as of any date, the ratio of annualized Underwritten NOI for the immediately preceding twelve (12) calendar months to annualized Debt Service.

"**Default Rate**" means the lesser of (a) the maximum per annum rate of interest allowed by applicable law, and (b) the Contract Rate plus five percent (5%) per annum.

"**Environmental Laws**" means any federal, state or local law (whether imposed by statute, ordinance, rule, regulation, administrative or judicial order, or common law), now or hereafter enacted, governing health, safety, industrial hygiene, the environment or natural resources, or Hazardous Materials, including, without limitation, such laws governing or regulating (a) the use, generation, storage, removal, recovery, treatment, handling, transport, disposal, control, release, discharge of, or exposure to, Hazardous Materials, (b) the transfer of property upon a negative declaration or other approval of a governmental authority of the environmental condition of such property, or (c) requiring notification or disclosure of releases of Hazardous Materials or other environmental conditions whether or not in connection with a transfer of title to or interest in property.

"**ESP 7**" means Extra Space Properties Seven LP, a Utah limited partnership.

"**Event of Default**" has the meaning assigned in Article 10.

"**Excess**" has the meaning assigned in Section 2.7.

"**Financial Institution**" means a United States Financial Institution as defined in 31 U.S.C. Section 5312, as periodically amended.

Foster-Miller" means Foster-Miller, Inc., a Massachusetts limited liability company.

"**Foster-Miller Lease**" means that certain Lease dated April 14, 1990 as amended, by and between Extra Space of Waltham LLC, as successor in interest to J. Gershon Bloch and Peter L. Godecke, as Trustees of Waltham Storage Depot Trust, as landlord, and Foster-Miller, as tenant, covering a portion of the Project known as "1206 Waltham, MA".

"**Guaranty**" means that certain Guaranty of even date herewith executed by Extra Space of Lanham LLC, a Maryland limited liability company, for the benefit of Lender.

"**Hazardous Materials**" means (a) petroleum or chemical products, whether in liquid, solid, or gaseous form, or any fraction or by-product thereof, (b) asbestos or asbestos-containing materials, (c) polychlorinated biphenyls (pcbs), (d) radon gas, (e) underground storage tanks, (f) any explosive or radioactive substances, (g) lead or lead-based paint, or (h) any other substance, material, waste or mixture which is or shall be listed, defined, or otherwise determined by any governmental authority to be hazardous, toxic, dangerous or otherwise regulated, controlled or giving rise to liability under any Environmental Laws.

"**Interest Holder**" has the meaning assigned in Section 8.1.

"**Joinder Party**" means the Persons, if any, executing the Joinder hereto, including Extra Space Storage LLC, a Delaware limited liability company, and ESP 7.

"**Libor Rate**" shall mean the British Bankers Association LIBOR Rate (rounded upward to the nearest one sixteenth of one percent) listed on Reuters Screen LIBOR01 Page for U.S. Dollar deposits with a designated maturity of one (1) month determined as of 11:00 a.m. London Time on the second (2nd) full Eurodollar Business Day next preceding the first day of each month with respect to which interest is payable under the Loan (unless such date is not a Business Day in which event the next succeeding Eurodollar Business Day which is also a Business Day will be used). If Reuters (i) publishes more than one (1) such Libor Rate, the average of such rates shall apply, or (ii) ceases to publish the Libor Rate, then the Libor Rate shall be determined from such substitute financial reporting service as Lender in its discretion shall determine. The term "**Eurodollar Business Day**", shall mean any day on which banks in the City of London are generally open for interbank or foreign exchange transactions.

"**Lien**" means, as to any Project, any interest, or claim thereof, in the Collateral securing an obligation owed to, or a claim by, any Person other than the owner of the Collateral, whether such interest is based on common law, statute or contract, including the lien or security interest arising from a deed of trust, mortgage, assignment, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" shall include reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting the Collateral.

"**Loan**" means the revolving line of credit to be made by Lender to Borrower under this Agreement and all other amounts secured by the Loan Documents.

"**Loan Documents**" means: (a) this Agreement, (b) the Note, (c) the Mortgages, (d) the Assignments of Rents and Leases, (e) UCC financing statements, (f) the Pledge Agreement, (g) the Guaranty, (h) such assignments of management agreements, contracts and other rights as may be required by Lender, (i) any letter of credit provided to Lender in connection with the Loan, (j) all other documents evidencing, securing, governing or otherwise pertaining to the Loan, and (k) all amendments, modifications, renewals, substitutions and replacements of any of the foregoing.

"**Loan Year**" means the period between the Closing Date and October 31, 2008 for the first Loan Year and the period between each succeeding November 1 and October 31 until the Maturity Date.

"**Lockout Period**" has the meaning assigned in Section 2.3(4).

"**LTV Ratio**" shall mean, as of the date of determination, the ratio, expressed as a percentage, of (a) the Maximum Commitment to (b) the aggregate value of the Projects as of such date, as determined by Lender in accordance with its then-current underwriting policies and procedures for properties similar to the Projects.

"**Maturity Rate**" means the earlier of (a) October 31, 2010, as such date may possibly be extended as provided in Section 2.3(3), or (b) any earlier date on which the entire Loan is required to be paid in full, by acceleration or otherwise, under this Agreement or any of the other Loan Documents.

"**Maximum Commitment**" means $100,000,000.00, subject to reduction as provided in this Agreement.

"**Mortgage**" means each Mortgage, Security Agreement and Fixture Filing and each Deed of Trust, Security Agreement and Fixture Filing, executed by Borrower or a Subsidiary in favor of Lender, covering a Project.

"**Net Cash Flow**" means, for any period, the amount by which Operating Revenues exceed the sum of (a) Operating Expenses, (b) Debt Service paid during such period, (c) capital expenditures, tenant improvement costs and leasing commissions, each approved by Lender and paid by Borrower during such period, and (d) any actual payment into impounds, escrows, or reserves required by Lender, except to the extent that any such payment is already included within the definition of Operating Expenses. In addition, Net Cash Flow shall be increased by any proceeds withdrawn from reserves and impounds funded out of Operating Revenues to the extent such proceeds are not applied to Operating Expenses.

"**New Jersey Projects**" means, collectively, the "1054 Metuchen, NJ" Project and the "1331 Union, NJ Project".

"**New Jersey Subsidiaries**" means, collectively, Extra Space of Metuchen LLC, a New Jersey limited liability company, and Extra Space of Union LLC, a New Jersey limited liability company.

"**Non-Borrower Subsidiaries**" means, collectively, the Subsidiaries in which Borrower does not have a direct or indirect ownership interest.

"**Non-New Jersey Projects**" means, collectively, the Projects other than the New Jersey Projects.

"**Non-New Jersey Subsidiaries**" means, collectively, the Subsidiaries other than the New Jersey Subsidiaries.

"**Note**" means the Promissory Note of even date, in the stated principal amount of $100,000,000.00, executed by Borrower, and payable to the order of Lender in evidence of the Loan.

"**OFAC**" means the Office of Foreign Assets Control, Department of the Treasury.

"**Operating Expenses**" means, for any period, all reasonable and necessary expenses of operating the Projects in the ordinary course of business which are paid in cash by Borrower or the Subsidiaries during such period and which are directly associated with and fairly allocable to the Projects for the applicable period, including ad valorem real estate taxes and assessments, insurance premiums, regularly scheduled tax impounds paid to Lender, maintenance costs, management fees and costs, wages, salaries, personnel expenses, accounting, legal and other professional fees, fees and other expenses incurred by Lender and reimbursed by Borrower under the Loan Documents and deposits to any capital replacement, leasing or other reserves required by Lender. Operating Expenses shall exclude Debt Service, capital expenditures, tenant improvement costs, leasing commissions, any of the foregoing operating expenses which are paid from deposits to cash reserves and such deposits were previously included as Operating Expenses, any payment or expense for which Borrower was or is to be reimbursed from proceeds of the Loan or insurance or by any third party, and any non-cash charges such as depreciation and amortization. Any management fee or other expense payable to Borrower or to an Affiliate of Borrower shall be included as an Operating Expense only with Lender's prior approval. Operating Expenses shall not include federal, state or local income taxes.

"**Operating Revenues**" means, for any period, all cash receipts of the Subsidiaries or Borrower during such period from operation of the Projects or otherwise arising in respect of the Projects after the date hereof which are properly allocable to the Projects for the applicable period, including receipts from leases and parking agreements, concession fees and charges, other miscellaneous operating revenues and proceeds from rental or business interruption insurance, but excluding security deposits and earnest money deposits until they are forfeited by the depositor, advance rentals until they are earned, and proceeds from a sale or other disposition.

"**Patriot Act**" means the USA PATRIOT Act of 2001, Pub. L. No. 107-56.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, trustee, estate, limited liability company, unincorporated organization, real estate investment trust, government or any agency or political subdivision thereof, or any other form of entity.

"**Pledge Agreement**" means each Pledge and Security Agreement executed by Borrower or ESP 7 in favor of the Lender.

"**Potential Default**" means the occurrence of any event or condition which, with the giving of notice, the passage of time, or both, would constitute an Event of Default.

"**Projects**" means, collectively, (a) the properties described in Schedule 1.1(B) (as such schedule may from time to time be supplemented or updated in accordance with the terms hereof) and each Additional Project added to the Collateral in accordance with Section 2.9, and (b) as to each property described in clause (a) above, all other "Mortgaged Property" described in the Mortgage encumbering such property.

"**REIT Distributions**" means distributions made or reasonably required to be made by Borrower so that it contributes its proportionate share of any distributions made or scheduled to be made by any Joinder Party to its publicly traded parent companies for the purpose of funding distributions to REIT shareholders and REIT OP unit holders which are reasonably required to be made either (i) for the REIT to maintain its tax status as a Real Estate Investment Trust, or (ii) to comply with resolutions adopted by the Board of Directors of the publicly traded REIT.

"**Restoration Threshold**" means, as of any date, the lesser of (a) two and one-half percent (2.5%) of the replacement value of the improvements at the damaged Project as of such date, and (b) $500,000.

"**Single Purpose Entity**" shall mean a Person (other than an individual, a government, or any agency or political subdivision thereof), which (a) exists solely for the purpose of (i) as to each Subsidiary, owning its Project, and (ii) as to Borrower, owning the Subsidiaries and its Projects, (b) conducts business only in its own name, (c) does not engage in any business or have any assets (i) as to each Subsidiary, unrelated to the Project owned thereby, and (ii) as to Borrower, other than its ownership of the Subsidiaries and assets related to its Projects, (d) does not have any indebtedness other than as permitted by this Agreement, (e) has its own separate books, records, and accounts (with no commingling of assets), (f) holds itself out as being a Person separate and apart from any other Person, (g) observes corporate and partnership formalities independent of any other entity, and (h) otherwise constitutes a single purpose, bankruptcy remote entity as determined by Lender.

"**Site Assessment**" means an environmental engineering report for each Project prepared by an engineer engaged by Lender at Borrower's expense, and in a manner satisfactory to Lender, based upon an investigation relating to and making appropriate inquiries concerning the existence of Hazardous Materials on or about such Project, and the past or present discharge, disposal, release or escape of any such substances, all consistent with ASTM Standard E 1527-05 (or any successor thereto published by ASTM) and other good customary and commercial

practice; provided, however, the term Site Assessment shall include the reports listed in Schedule 1.1(C). Borrower represents and warrants to Lender that true, correct and complete copies of all items in Schedule 1.1 (C) were delivered to Lender prior to the Closing Date.

"**Specially Designated National and Blocked Persons**" means those Persons that have been designated by executive order or by the sanction regulations of OFAC as Persons with whom U.S. Persons may not transact business or must limit their interactions to types approved by OFAC.

"**Standard Adjustments**" means the following assumptions to be made with respect to each Project when calculating Underwritten NOI: (a) an occupancy rate equal to the lesser of market occupancy or the Project's actual occupancy rate (but in no event more than a ninety percent (90%) occupancy rate); (b) capital reserves of $0.15 per gross square foot; and (c) a management fee equal to the greater of the Project's actual management fee or six percent

(6%) of Operating Revenues. As used above, “market occupancy” means, as to each Project, the average occupancy rate of self-storage projects that are similar in size and quality to such Project and that are located in such Project’s geographic market or sub-market area, all as determined by Lender.

“**Subsidiary**” means each of the entities identified as subsidiaries in Schedule 4.1.

“**Title Insurance Policies**” means, collectively, the ALTA (or equivalent) mortgagee policies of title insurance in the maximum amount of the Loan, with reinsurance and endorsements as Lender may require, containing no exceptions to title (printed or otherwise) which are unacceptable to Lender, and insuring that each Mortgage is a first-priority Lien on the Project encumbered thereby and related collateral.

“**Transfer**” has the meaning assigned in Section 8.1.

“**UCC**” means, as to each Project, the Uniform Commercial Code as enacted and in effect in the state where such Project is located (and as it may from time to time be amended), and, as to the Pledge Agreement, the Uniform Commercial Code as enacted and in effect in the State of Utah (and as it may from time to time be amended); provided that, to the extent that the UCC is used to define any term in this Agreement or in any other Loan Document and such term is defined differently in different Articles or Divisions of the UCC, the definition of such term contained in Article or Division 9 shall govern; provided further, however, that if, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, Lender’s Liens on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the state where a Project is located, the term “UCC” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for the purposes of the provisions thereof relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions.

“**Underwritten NOI**” means the amount by which Underwritten Operating Revenues on an aggregate basis for all Projects exceed Underwritten Operating Expenses on an aggregate basis for all Projects for the 12-month period immediately preceding the date of calculation.

“**Underwritten Operating Expenses**” means Operating Expenses as determined and adjusted by Lender to reflect the Standard Adjustments and otherwise in accordance with its then current audit policies and procedures for properties similar to the Project.

“**Underwritten Operating Revenues**” means Operating Revenues as determined and adjusted by Lender to reflect the Standard Adjustments and otherwise in accordance with its then current audit policies and procedures for properties similar to the Project.

“**U.S. Person**” means any United States citizen, any entity organized under the laws of the United States or its constituent states or territories, or any entity, regardless of where organized, having its principal place of business within the United States or any of its territories.

“**Valuation Amount**” means, with respect to each Project, the amount set forth opposite the reference to such Project in Schedule 1.1 (A) under the caption “Valuation Amount”, as such Valuation Amount for the “1206 Waltham, MA” Project may be decreased pursuant to the terms of Section 8.16.

ARTICLE 2

LOAN TERMS

Section 2.1 **The Loan**. The Loan in the maximum amount outstanding at any time of up to ONE HUNDRED MILLION AND NO/100 DOLLARS ($100,000,000.00) shall be funded in one or more advances and repaid in accordance with this Agreement. Subject to the foregoing limitation and the other terms and conditions of this Agreement, Borrower may borrow, repay without penalty or premium, and reborrow hereunder. All Loan advances shall be made upon Borrower’s satisfaction of the conditions for advances described in Schedule 2.1.

Section 2.2 **Interest Rate; Late Charge**.

(1) The outstanding principal balance of the Loan (including any amounts added to principal under the Loan Documents) shall bear interest at a variable rate of interest, adjusted monthly, equal to the Libor Rate plus the Applicable Margin (the “**Contract Rate**”).

From the Closing Date through the end of the calendar quarter in which the first advance is made, the Applicable Margin is 1.0%.

The Applicable Margin shall be adjusted by reference to the following grid:

Test No.:	If Debt Service Coverage is:
1.	^{3} 2.00:1.00 assuming an Applicable Margin of 1.00, the Applicable Margin shall be 1.00%.
2.	^{3} 1.75:1.00 assuming an Applicable Margin of 1.25, but Test No. 1 above is not met, the Applicable Margin shall be 1.25%.

Test No.:	If Debt Service Coverage is:
3.	^{3} 1.50:1.00 assuming an Applicable Margin of 1.65, but neither Test No. 1 nor Test No. 2 above is met, the Applicable Margin shall be 1.65%.
4.	If none of Test No. 1, Test No. 2 or Test No. 3 is met, the Applicable Margin shall be 2.05%.

(2) Lender shall test the Debt Service Coverage at the end of the calendar quarter in which the first advance is made, and at the end of each calendar quarter thereafter, based on (i) an assumed Loan balance equal to the Average Daily Balance for such quarter and (ii) the then-current Libor Rate. If, based on such test, Lender determines that a different Applicable Margin applies to the Loan, Lender shall notify Borrower of the new Applicable Margin (and, upon Borrower’s request, provide supporting calculations of Debt Service Coverage, Underwritten NOI and Standard

Adjustments to Borrower, which shall be provided to Borrower substantially in the form of Schedule 2.2(2) attached hereto), which shall apply to the outstanding balance of the Loan effective as of the first day of the next calendar quarter until again changed in accordance with the results of a subsequent Debt Service Coverage test.

(3) If, as a result of any restatement of or other adjustment to the financial statements of Borrower or for any other reason, the Lender determines that (a) the Debt Service Coverage as calculated based on financial information provided by Borrower as of any applicable date was inaccurate and (b) a proper calculation of the Debt Service Coverage would have resulted in different pricing for any period, then (i) if the proper calculation of the Debt Service Coverage would have resulted in a higher Contract Rate for such period, Borrower shall automatically and retroactively be obligated to pay to the Lender, promptly on demand by the Lender, an amount equal to the excess of the amount of interest that should have been paid for such period over the amount of interest actually paid for such period; and (ii) if the proper calculation of the Debt Service Coverage would have resulted in a lower Contract Rate for such period, Lender shall have no obligation to repay any interest to Borrower; provided that if, as a result of any restatement or other event a proper calculation of the Debt Service Coverage would have resulted in a higher Contract Rate for one or more periods and a lower Contract Rate for one or more other periods (due to the shifting of income or expenses from one period to another period or any similar reason), then the amount payable by Borrower pursuant to clause (i) above shall be based upon the excess, if any, of the amount of interest and fees that should have been paid for all applicable periods over the amount of interest and fees paid for all such periods.

(4) Interest owing for each month shall be computed on the basis of a fraction, the denominator of which is three hundred sixty (360) and the numerator of which is the actual number of days elapsed from the first day of such month (or, for the initial advance, from the date of such advance). Principal and other amortization payments shall be applied to the Loan balance as and when actually received.

(5) If Borrower fails to pay any installment of interest within five (5) days after the date on which the same is due, Borrower shall pay to Lender a late charge

on such past-due amount, as liquidated damages and not as a penalty, equal to five percent (5%) of such amount, but not in excess of the maximum amount of interest allowed by applicable law. The foregoing late charge is intended to compensate Lender for the expenses incident to handling any such delinquent payment and for the losses incurred by Lender as a result of such delinquent payment. Borrower agrees that, considering all of the circumstances existing on the date this Agreement is executed, the late charge represents a reasonable estimate of the costs and losses Lender will incur by reason of late payment. Borrower and Lender further agree that proof of actual losses would be costly, inconvenient, impracticable and extremely difficult to fix. Acceptance of the late charge shall not constitute a waiver of the default arising from the overdue installment, and shall not prevent Lender from exercising any other rights or remedies available to Lender. While any Event of Default exists, the Loan shall bear interest at the Default Rate.

Section 2.3 **Terms of Payment**. The Loan shall be payable as follows:

(1) **Interest**. Commencing on December 1, 2007, Borrower shall pay interest in arrears on the first day of each month until all amounts due under the Loan Documents are paid in full.

(2) **Principal Amortization/Mandatory Prepayments**. The Loan shall be an interest-only loan and Borrower shall not be required to make any regularly scheduled principal amortization payments; provided, however, if on any day the outstanding principal amount of the Loan exceeds the lesser of (i) eighty-five percent (85%) of the sum of the Valuation Amounts or (ii) the Maximum Commitment, Borrower shall pay such excess to Lender, in immediately available funds, within thirty (30) days of demand by Lender (or on such earlier date as is required by any other applicable provision of this Agreement).

(3) **Maturity**. On the Maturity Date, Borrower shall pay to Lender all outstanding principal, accrued and unpaid interest, and any other amounts due under the Loan Documents. Subject to the provisions of this Section 2.3(3), Borrower, at its option, may extend the term of the Loan for two (2) additional 12-month periods. Borrower's right to extend the term of the Loan is subject to the satisfaction of each of the following conditions as to each extension:

(a) Borrower shall deliver to Lender a written request to extend the term of the Loan (the "**Extension Request**") at least ninety (90) days before the then existing Maturity Date.

(b) No Event of Default or Potential Default has occurred and is continuing on the date on which Borrower delivers the Extension Request to Lender, or on the date the extension period commences.

(c) Borrower shall have paid to Lender, in immediately available funds, an extension fee equal to one quarter percent (0.25%) of the Maximum Commitment.

(d) During the extended term of the Loan, all terms and conditions of the Loan Documents (other than the original Maturity Date) shall continue to apply except that Borrower shall have no further right to extend the term of the Loan after the second extension.

(e) The Debt Service Coverage (based an Applicable Margin of 2.05% and assuming the outstanding Loan balance equals the Maximum Commitment) equals or exceeds 1.15 to 1 and the LTV Ratio does not exceed eighty-five percent (85%).

(f) If required by Lender, Borrower shall cause to be delivered to Lender at Borrower's expense an updated Site Assessment for each Property reasonably satisfactory to Lender, which shall show no adverse matters or items.

(g) If required by Lender, Borrower shall cause to be delivered to Lender at Borrower's expense an updated engineering and an updated seismic report for each Property, each report reasonably satisfactory to Lender, which shall show no adverse matters or items.

(h) Borrower shall execute and deliver such other instruments, certificates, opinions of counsel and documentation as Lender shall reasonably request in order to preserve, confirm or secure the Liens and security granted to Lender by the Loan Documents, including any amendments, modifications or supplements to any of the Loan Documents, endorsements to the Title Insurance Policies and, if required by Lender, estoppels and other certificates.

(i) Borrower shall pay all costs and expenses incurred by Lender in connection with such extension of the Loan, including Lender's attorneys' fees and disbursements.

(4) **Lockout/Prepayment**. The Loan may not be canceled or otherwise terminated by Borrower through April 30, 2009 (the "**Lockout Period**"). Thereafter, upon not less than thirty (30) days' prior written notice to Lender, Borrower may, upon repayment of the Loan and satisfaction of any other obligations owing under the Loan Documents in full (including without limitation the payment of the Unused Fee prorated from the first day of the then current calendar quarter through the end of the Lockout Period), Borrower may cancel the Loan, from and after which Borrower shall have no further right to request or receive Loan advances and Lender shall have no further obligations under the Loan Documents. If the Loan is accelerated during the Lockout Period for any reason other than casualty or condemnation, Borrower shall pay, in addition to all other amounts outstanding under the Loan Documents (including without limitation the payment of the Unused Fee prorated from the first day of the then current calendar quarter through the date of cancellation), a prepayment premium equal to $250,000.00.

(5) **Application of Payments**. All payments received by Lender under the Loan Documents shall be applied to the following, in such order as Lender may

elect in its sole discretion: (a) to any fees and expenses due to Lender under the Loan Documents; (b) to any Default Rate interest or late charges; (c) to accrued and unpaid interest; (d) to amounts owed under any reserves or escrows required by Lender; and (e) to the principal sum and other amounts due under the Loan Documents. Prepayments of principal shall be applied against amounts owing in inverse order of maturity.

Section 2.4 **Security**. The Loan shall be secured by the Mortgages creating a first lien on the Projects, the Assignments of Rents and Leases and the other Loan Documents.

Section 2.5 **Origination Fee**. As partial consideration for Lender's agreement to make the Loan, Borrower shall pay to Lender a loan origination fee of $500,000.00 (the "**Origination Fee**"). The Origination Fee shall be payable in full on or before the Closing Date.

Section 2.6 **Unused Fee**. In addition to the payment of the Origination Fee provided for in Section 2.5 above, Borrower shall pay to Lender (commencing on January 1, 2008 and by the first day of each April, July, October and January thereafter), an unused fee (the "**Unused Fee**") on the average daily amount of the Maximum Commitment which was unused during the immediately preceding calendar quarter calculated on the basis of actual days elapsed in a year consisting of 360 days, at the rate of one eighth percent (0.125%) per annum, calculated through the last calendar day of each such calendar quarter, and payable in arrears. For purposes of this Section 2.6: (a) the average daily amount of the Maximum Commitment which was unused shall equal: (i) the average daily Maximum Commitment during a calendar quarter; less (ii) the average daily utilization of the Maximum Commitment during such calendar quarter; (b) the average daily Maximum Commitment during a calendar quarter shall equal the quotient of: (i) the aggregate of the Maximum Commitment on each day during such calendar quarter; divided by (ii) the number of days in such calendar quarter; and (c) the average daily utilization of the Maximum Commitment during a calendar quarter shall equal the mean average daily closing balance of the Loan during such calendar quarter; provide, however, that the Unused Fee due January 1, 2008 shall be calculated for the period commencing on the Closing Date and ending on December 31, 2007.

Section 2.7 **Debt Service Coverage**. At the end of each Loan Year, Lender shall test the Debt Service Coverage based on an Applicable Margin of 2.05% and assuming the outstanding Loan balance equals the Maximum Commitment. If, as of any such determination date, the Debt Service Coverage is less than 1.15:1, (i) Lender shall have the right, in its sole and absolute discretion, to permanently reduce the Maximum Commitment to an amount which would increase the Debt Service Coverage to 1.15:1, and (ii) Borrower shall, within thirty (30) days after Lender's demand, which demand shall be accompanied by Lender's supporting calculations, pay to Lender, in immediately available funds, the amount, if any, by which the outstanding principal amount of the Loan exceeds the Borrowing Base (the "**Excess**") due to the reduction in the Maximum Commitment in accordance with clause (i). Any reduction in the Maximum Commitment pursuant to this Section 2.7 shall be effective as of the date of Lender's notice of such reduction to Borrower, and shall remain effective for the balance of the Loan term unless superseded by a subsequent reduction notice by Lender in accordance with this Section 2.7.

Section 2.8 **Partial Release of Collateral**. Except as expressly set forth below in this Section, Lender shall have no obligation to release any of the Collateral until all of Borrower's indebtedness and obligations under the Loan Documents have been paid and performed in full, and all obligations of Lender under this Agreement and the other Loan Documents have terminated. Borrower shall be entitled to obtain releases of Projects from the Lien of the Loan Documents, provided that all of the following conditions are satisfied as to each proposed release of a Project (the "**Release Project**"):

(1) Borrower has provided Lender with at least thirty (30) (or five (5) days for the release of the " 1195 Lanham, MD" Project completed within ninety (90) days after the Closing Date) but not more than ninety (90) days prior written notice (the "**Partial Release Notice**") of the proposed release together with copies of any documents which Borrower requests that Lender execute in connection with such proposed release.

(2) Except for the release of the "1195 Lanham, MD" Project completed within ninety (90) days after the Closing Date, for any proposed release occurring during the Lockout Period, the proposed release shall be requested in connection with a bona fide sale of the Release Project to a third party purchaser (not an Affiliate of Borrower or any Borrower Party). During the Lockout Period, no partial release shall be permitted if requested in connection with a refinance or other recapitalization of a Project or any other transaction other than a bona fide sale to a third party purchaser except for the release of the "1195 Lanham, MD" Project completed within ninety (90) days after the Closing Date.

(3) For any proposed release occurring after the Lockout Period, concurrently with the requested release, fee title to the Release Project, or the ownership interests in the current owners thereof, shall be transferred to a Person other than Borrower, any Subsidiary or any entity in which Borrower or any Subsidiary holds a direct or indirect ownership interest.

(4) No Event of Default or Potential Default has occurred and is continuing on the date on which Borrower delivers the Partial Release Notice to Lender, or on the date of the requested release.

(5) If, after giving effect to the requested release (and the resulting decrease in the Borrowing Base), the outstanding balance of the Loan exceeds the Borrowing Base, Borrower shall have paid to Lender the Excess.

(6) The remaining Projects shall be acceptable to Lender in its sole and absolute discretion. Without limiting the foregoing, the Valuation Amount for any remaining Project shall not exceed twenty-five percent (25%) of the sum of the Valuation Amounts for all remaining Projects, and the Valuation Amounts for all remaining Projects located in the same "Metropolitan Statistical Area" (as defined by the United States Office of Management and Budget) shall not exceed thirty-five percent (35%) of the sum of the Valuation Amounts for all remaining Projects.

(7) Lender shall have prepared, and Borrower shall have acknowledged, revised Schedules 1.1(A), l.(B) and 4.1, in each case revised to exclude the Release Project and, if applicable, its Subsidiary owner. As of the date of the release of Release Project from the Lien of the Loan Documents, such revised schedules shall be deemed to supersede and replace the prior versions thereof.

(8) Borrower shall have executed and delivered to Lender such other instruments, certificates and documentation as Lender shall reasonably request in order to preserve, confirm or secure the validity and priority of the remaining Liens and security granted to Lender under the Loan Documents, including any amendments, modifications or supplements to any of the Loan Documents and endorsements to the Title Insurance Policies insuring the Liens of the Mortgages encumbering the remaining Projects.

(9) Borrower shall have delivered to Lender a copy of any purchase and sale agreement and all other related documentation with respect to the sale of the Release Project.

(10) Borrower shall have paid all costs and expenses incurred by Lender in connection with the proposed release, including attorneys' fees and costs and all title insurance premiums for title endorsements required by Lender in connection with the proposed release.

Section 2.9 **Additional Projects**. During the term of the Loan, Borrower shall have the option of adding additional self-storage projects (each an "**Additional Project**") to the Collateral, upon the satisfaction of all of the following conditions precedent with respect to each such Additional Project (and delivery below shall be subject to Lender's receipt, review, approval and/or confirmation, at Borrower's cost and expense, each in form and substance satisfactory to Lender):

(1) Borrower has provided Lender with at least thirty (30) but not more than ninety (90) days prior written notice (the "**Additional Project Notice**") of the proposed addition of the Additional Project to the Collateral.

(2) No Event of Default or Potential Default has occurred and is continuing on the date on which Borrower delivers the Additional Project Notice to Lender, or on the date of the requested addition.

(3) The Additional Project shall be acquired by Borrower.

(4) The Additional Project shall be acceptable to Lender in its sole and absolute discretion.

(5) Concurrently with the addition of the Additional Project, Borrower shall pay to Lender a fee (the "**Additional Project Fee**") equal to one quarter percent (0.25%) of eighty-five percent (85%) of the Valuation Amount determined by Lender for such Additional Project; provided, however, the Additional Project Fee shall be waived for each of the first two (2) Additional Projects added to the Collateral in any Loan Year.

(6) Lender shall have received a Mortgage (the "**Additional Mortgage**") covering the Additional Project and all personal property related thereto (and such Additional Mortgage shall have been properly recorded in the official records of the county or counties in which the Additional Project is located).

(7) Lender shall have received an Assignment of Rents and Leases (the "**Additional Assignment of Rents and Leases**") covering the Additional Project and all leases related thereto (and such Additional Assignment of Rents and Leases shall have been properly recorded in the official records of the county or counties in which the Additional Project is located).

(8) Lender shall have prepared, and Borrower shall have acknowledged, revised Schedules 1.1(A) (which shall reflect Lender's determination of the Valuation Amount for the Additional Project) and l.1(B), revised to include the applicable information for the Additional Project. As of the date of the recordation of the Mortgage encumbering the Additional Project, such revised schedules shall be deemed to supersede and replace the prior versions thereof.

(9) Lender shall have received an ALTA (or equivalent) mortgagee policy of title insurance, with reinsurance and endorsements as Lender may reasonably require, containing no exceptions to title (printed or otherwise) which are unacceptable to Lender, and insuring that the Additional Mortgage is a first-priority Lien on the Additional Project and related collateral. Borrower shall also obtain, at its sole cost and expense, any endorsements, continuations or modifications to any existing title policies as Lender may reasonably request, including without limitation aggregation or tie-in endorsements, but not including any overall increase in the insured amount above the Maximum Commitment Amount.

(10) Lender shall have received legal opinions issued by counsel for the entity acquiring the Additional Project (and, where required by Lender, by Lender's local counsel), opining as to the due organization, valid existence and good standing of such Person, and the due authorization, execution, delivery, enforceability and validity of the Additional Mortgage and the Additional Assignment of Rents and Leases with respect to, such

Person; that the Loan, as reflected in the Loan Documents, is not usurious; to the extent that Lender is not otherwise satisfied, that the Additional Project and its use is in full compliance with all legal requirements; and as to such other matters as Lender and Lender's counsel reasonably may specify.

(11) Lender shall have received such information regarding the Additional Project as Lender shall request, including without limitation financial information, historic rent rolls and operating statements, to enable Lender to establish a Valuation Amount for the Additional Project.

(12) Lender shall have received UCC searches for the seller of the Additional Project.

(13) Lender shall have received evidence of insurance as required by this Agreement with respect to the Additional Project.

(14) Lender shall have received a current ALTA/ACSM land title survey of the Additional Project, dated or updated to a date not earlier than thirty (30) days prior to the date hereof, certified to Lender and the issuer of Lender's title insurance, prepared by a licensed surveyor acceptable to Lender and such title insurer, and conforming to Lender's current standard survey requirements.

(15) Lender shall have a current engineering report or architect's certificate with respect to the Additional Project, covering, among other matters, inspection of heating and cooling systems, roof and structural details and showing no failure of compliance with building plans and specifications, applicable legal requirements (including requirements of the Americans with Disabilities Act) and fire, safety and health standards. As requested by Lender, such report shall also include an assessment of the Additional Project's tolerance for earthquake and seismic activity.

(16) Lender shall have received a current Site Assessment for the Additional Project.

(17) Lender shall have received a current rent roll of the Additional Project, which Borrower shall represent and warrant is true and correct. Such rent roll shall include the following information: (a) tenant names; (b) unit/suite numbers; (c) area of each demised premises and total area of the Additional Project (stated in net rentable square feet); (d) rental rate (including escalations) (stated in gross amount and in amount per net rentable square foot per year); and (e) security deposit, if any.

(18) Lender shall have received evidence that the Additional Project and the operation thereof comply with all legal requirements, including that all requisite certificates of occupancy, building permits, and other licenses, certificates, approvals or consents required of any governmental authority have been issued without variance or condition and that there is no litigation, action, citation, injunctive proceedings, or like matter pending or threatened with respect to the validity of such matters. At Lender's request, Borrower shall furnish Lender with a zoning endorsement to Lender's title insurance policy (if available), zoning letters from applicable municipal agencies, and utility letters from applicable service providers or other reasonable proof that required utilities are available to the Additional Project.

(19) No condemnation or adverse zoning or usage change proceeding shall have occurred or shall have been threatened against the Additional Project; the Additional Project shall not have suffered any significant damage by fire or other casualty which has not been repaired; no law, regulation, ordinance, moratorium, injunctive proceeding, restriction, litigation, action, citation or similar proceeding or matter shall have been enacted, adopted, or threatened by any governmental authority, which would have, in Lender's judgment, a material adverse effect on the Additional Project or the acquirer of the Additional Project.

(20) All fees and commissions payable to real estate brokers, mortgage brokers, or any other brokers or agents in connection with the Loan or the acquisition of the Additional Project shall have been paid, such evidence to be accompanied by any waivers or indemnifications deemed necessary by Lender.

(21) Lender shall have received payment of Lender's costs and expenses in underwriting, documenting, and closing the transaction, including fees and expenses of Lender's inspecting engineers, consultants, and outside counsel.

(22) Lender shall have received such other authorizations, documents, certificates, updates, reports, searches or items as Lender reasonably may require with respect to the Additional Project.

ARTICLE 3

INSURANCE, CONDEMNATION, AND IMPOUNDS

Section 3.1 **Insurance.** Borrower shall, and shall cause the Subsidiaries to, maintain insurance as follows:

(1) **Casualty; Business Interruption.** Borrower shall, and shall cause the Subsidiaries, to keep the Projects insured against damage by fire and the other hazards covered by a standard extended coverage and all-risk insurance policy for the full insurable value thereof on a replacement cost claim recovery basis (without reduction for depreciation or co-insurance and without any exclusions or reduction of policy limits for acts of domestic and foreign terrorism or any similar acts no matter how labeled), and shall maintain boiler and machinery insurance, acts of domestic and foreign terrorism endorsement coverage and such other casualty insurance as reasonably required by Lender. Lender reserves the right to require from time to time the following additional insurance: flood, earthquake/sinkhole, windstorm and/or building law or ordinance. Borrower shall, and shall cause each Subsidiary, to keep each of its Projects insured against loss by flood if such Project is located currently or at any time in the future in an area identified by the Federal Emergency Management Agency as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968, the Flood Disaster Protection Act of 1973 or the National Flood Insurance Reform Act of 1994 (as such acts may from time to time be amended) in an amount at least equal to the lesser of (a) the maximum value of the Project (as determined by Lender) or (b) the maximum limit of coverage available under said acts. Any such flood insurance policy shall be issued in accordance with the requirements and current guidelines of the Federal Insurance Administration. Borrower shall, and shall cause each Subsidiary, to maintain business

interruption insurance, including rental income loss and extra expense, against all periods covered by Borrower and such Subsidiary's property insurance for a limit equal to twelve(12) calendar months' exposure, all without any exclusions or reduction of policy limits for acts of domestic and foreign terrorism or any similar acts no matter how labeled. Borrower shall not, and shall not permit the Subsidiaries, to maintain any separate or additional insurance which is

contributing in the event of loss unless it is properly endorsed and otherwise satisfactory to Lender in all respects. The proceeds of insurance paid on account of any damage or destruction to any Project shall be paid to Lender to be applied as provided in Section 3.2.

(2) **Liability.** Borrower shall, and shall cause the Subsidiaries, to maintain (a) commercial general liability insurance with respect to each Project providing for limits of liability of not less than $5,000,000 for both injury to or death of a person and for property damage per occurrence with a deductible not greater than $250,000.00, and (b) other liability insurance as reasonably required by Lender.

(3) **Form and Quality.** All insurance policies shall be endorsed in form and substance acceptable to Lender to name Lender as an additional insured, loss payee or mortgagee thereunder, as its interest may appear, with loss payable to Lender, without contribution, under a standard New York (or local equivalent) mortgagee clause. All such insurance policies and endorsements shall be fully paid for, shall be issued by appropriately licensed insurance companies acceptable to Lender with a rating of "A-:IX" or better as established by A.M. Best's Rating Guide, and shall be in such form, and shall contain such provisions, deductibles (with no increased deductible for acts of domestic and foreign terrorism or any similar acts no matter how labeled) and expiration dates, as are acceptable to Lender. Each policy shall provide that such policy may not be canceled or materially changed except upon thirty (30) days' prior written notice of intention of non-renewal, cancellation or material change to Lender and that no act or thing done by Borrower or any Subsidiary shall invalidate any policy as against Lender. Blanket policies shall be permitted only if Lender receives appropriate endorsements and/or duplicate policies containing Lender's right to continue coverage on a pro rata pass-through basis. Without limiting the foregoing, Lender shall have the right to conduct an annual review of Borrower's insurance coverage, which is provided pursuant to a blanket policy covering the Projects and other properties owned by affiliates of Extra Space Storage LLC, a Delaware limited liability company. Borrower agrees that Lender shall have the right to reasonably increase the amount of coverage required to be maintained under such blanket policy based on additional properties added to such blanket policy subsequent to the Closing Date (or subsequent to the most recent annual review, as the case may be), as determined by Lender's insurance consultants as part of such annual review. If Borrower or any Subsidiary fails to maintain insurance in compliance with this Section 3.1, Lender may obtain such insurance and pay the premium therefor and Borrower shall, on demand, reimburse Lender for all expenses incurred in connection therewith.

(4) **Assignment.** Borrower shall, and shall cause the Subsidiaries, to assign the policies or proofs of insurance to Lender, in such manner and form that Lender and its successors and assigns shall at all times have and hold the same as security for the payment of the Loan. If requested by Lender, Borrower shall deliver copies of all original policies certified to Lender by the insurance company or authorized agent as being true copies, together with the endorsements required hereunder. If Borrower or any Subsidiary elects to obtain any insurance which is not required under this Agreement (including earthquake insurance), all related insurance policies shall be endorsed in compliance with Section 3.1(3), and such additional insurance shall not be canceled

without prior notice to Lender. From time to time upon Lender's request, Borrower shall identify to Lender all insurance maintained by Borrower or the Subsidiaries with respect to each Project. The proceeds of insurance policies coming into the possession of Lender shall not be deemed trust funds, and Lender shall be entitled to apply such proceeds as herein provided.

(5) **Adjustments.** Borrower shall give immediate written notice of any loss to the insurance carrier, and shall give immediate notice to Lender of any loss which exceeds $25,000. Borrower, on its own behalf and on behalf of the Subsidiaries, hereby irrevocably authorizes and empowers Lender, as attorney-in-fact for Borrower and the Subsidiaries coupled with an interest, to notify any insurance carriers of Borrower and the Subsidiaries to add Lender as a loss payee, mortgagee insured or additional insured, as the case may be, to any policy maintained by Borrower or the Subsidiaries (regardless of whether such policy is required under this Agreement), to make proof of loss, to adjust and compromise any claim under insurance policies, to appear in and prosecute any action arising from such insurance policies, to collect and receive insurance proceeds, and to deduct therefrom Lender's expenses incurred in the collection of such proceeds. Nothing contained in this Section 3.1(5), however, shall require Lender to incur any expense or take any action hereunder.

Section 3.2 **Use and Application of Insurance Proceeds.** Lender shall apply insurance proceeds to costs of restoring a damaged Project or the Loan as follows:

(1) if the loss is less than or equal to the Restoration Threshold, Lender shall apply the insurance proceeds to restoration provided (a) no Event of Default or Potential Default exists, and (b) Borrower or the applicable Subsidiary promptly commences and is diligently pursuing restoration of the Project;

(2) if the loss exceeds the Restoration Threshold, but is not more than ten percent (10%) of the replacement value of the improvements (for projects containing multiple phases or stand alone structures, such calculation to be based on the damaged phase or structure, not the project as a whole), Lender shall apply the insurance proceeds to restoration provided that at all times during such restoration (a) no Event of Default or Potential Default exists; (b) Lender determines that there are sufficient funds available to restore and repair the Project to a condition approved by Lender; (c) Lender determines that the Underwritten NOI during restoration will be sufficient to pay Debt Service during restoration; (d) Lender determines (based on leases which will remain in effect after restoration is complete) that after restoration the Debt Service Coverage will be at least equal to 1.15:1 based on an Applicable Margin of 2.05% and assuming the outstanding Loan balance equals the Maximum Commitment; (e) Lender determines that the LTV Ratio after restoration will not exceed eighty-five percent (85%); (f) Lender determines that restoration and repair of the Project to a condition approved by Lender will be completed within six months after the date of loss or casualty and in any event ninety (90) days prior to the Maturity Date; (g) Borrower or the applicable Subsidiary promptly commences and is diligently pursuing restoration of the Project; and (h) the Project after the restoration will be in compliance with and permitted under all applicable zoning, building and land use laws, rules, regulations and ordinances;

(3) if the conditions set forth above are not satisfied or the loss exceeds the maximum amount specified in Section 3.2(2) above, in Lender's sole discretion, Lender may apply any insurance proceeds it may receive to amounts owing under the Loan Documents in such order and manner as Lender in its sole discretion determines, or allow all or a portion of such proceeds to be used for the restoration of the Project; and

(4) insurance proceeds applied to restoration will be disbursed on receipt of satisfactory plans and specifications, contracts and subcontracts, schedules, budgets, lien waivers and architects' certificates, and otherwise in accordance with prudent commercial construction lending practices for construction loan advances, including, as applicable, the advance conditions under Schedule 2.1. Any insurance proceeds remaining after payment of all restoration costs shall be applied by Lender to the Loan balance or, at Lender's sole option, remitted to Borrower or the applicable Subsidiary.

Section 3.3 **Condemnation Awards.** Borrower shall immediately notify Lender of the institution of any proceeding for the condemnation or other taking of any Project or any portion thereof. Lender may participate in any such proceeding and Borrower will deliver to Lender all instruments necessary or required by Lender to permit such participation. Without Lender's prior consent, which shall not be unreasonably withheld, Borrower shall not, and shall not permit any Subsidiary to (1) agree to any compensation or award, and (2) take any action or fail to take any action which would cause the compensation to be determined. Borrower, on its own behalf and on behalf of the Subsidiaries, hereby assigns to Lender all awards and compensation to which Borrower or any Subsidiary is entitled for the taking or purchase in lieu of condemnation of any Project or any part thereof, and agrees that all such awards and compensation shall be paid to Lender. Borrower, on its own behalf and on behalf of the Subsidiaries, authorizes Lender to collect and receive such awards and compensation, to give proper receipts and acquittances therefor, and in Lender's sole discretion to apply the same toward the payment of the Loan, notwithstanding that the Loan may not then be due and payable, or to the restoration of the affected Project; however, if the award is less than or equal to $50,000 and Borrower requests that such proceeds be used for non-structural site improvements (such as landscape, driveway, walkway and parking area repairs) required to be made as a result of such condemnation, Lender will apply the award to such restoration in accordance with disbursement procedures applicable to insurance proceeds provided there exists no Potential Default or Event of Default. Borrower, upon request by Lender, shall execute or cause the Subsidiaries to execute all instruments requested to confirm the assignment of the awards and compensation to Lender, free and clear of all liens, charges or encumbrances.

Section 3.4 **Impounds.** Borrower shall deposit into a reserve with Lender, monthly on the first day of each month, one-twelfth (l/12th) of the annual charges for ground or other rent, if any (but only if such rent is due less often than monthly or, regardless of payment frequency, if Borrower has failed to make one or more of such payments), insurance premiums and real estate taxes, assessments and similar charges relating to each Project. On or before Closing Date, Borrower shall deposit with Lender a sum of money which together with the monthly installments will be sufficient to make each of such payments thirty (30) days prior to the date any delinquency or penalty becomes due with respect to such payments. Deposits shall

be made on the basis of Lender's estimate from time to time of the charges for the current year (after giving effect to any reassessment or, at Lender's election, on the basis of the charges for the prior year, with adjustments when the charges are fixed for the then current year). All funds so deposited shall be held by Lender, without interest, and may be commingled with Lender's general funds. Borrower hereby grants to Lender a security interest in all funds so deposited with Lender for the purpose of securing the Loan. While an Event of Default exists, the funds deposited may be applied in payment of the charges for which such funds have been deposited, or to the payment of the Loan or any other charges affecting the security of Lender, as Lender may elect, but no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender. Borrower shall furnish Lender with bills for the charges for which such deposits are required at least thirty (30) days prior to the date on which the charges first become payable. If at any time the amount on deposit with Lender, together with amounts to be deposited by Borrower before such charges are payable, is insufficient to pay such charges, Borrower shall deposit any deficiency with Lender immediately upon demand. Lender shall pay such charges when the amount on deposit with Lender is sufficient to pay such charges and Lender has received a bill for such charges.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender that:

Section 4.1 **Organization and Power**. Borrower and each Borrower Party is duly organized, validly existing and in good standing under the laws of the state of its formation or existence. Borrower is in compliance with all legal requirements applicable to doing business in the state in which Borrower's Projects are located. Each Subsidiary is in compliance with all legal requirements applicable to doing business in the state in which such Subsidiary's Project is located. Borrower is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code. Borrower and each Borrower Party has only one state of incorporation or organization, which is set forth in Schedule 4.1. All other information regarding Borrower and each Borrower Party contained in Schedule 4.1, including the ownership structure of Borrower and its constituent entities, is true and correct as of the Closing Date.

Section 4.2 **Validity of Loan Documents**. The execution, delivery and performance by Borrower and each Borrower Party of the Loan Documents: (1) are duly authorized and do not require the consent or approval of any other party or governmental authority which has not been obtained; and (2) will not violate any law or result in the imposition of any lien, charge or encumbrance upon the assets of any such party, except as contemplated by the Loan Documents. The Loan Documents constitute the legal, valid and binding obligations of Borrower and each Borrower Party, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, or similar laws generally affecting the enforcement of creditors' rights.

Section 4.3 **Liabilities; Litigation; Other Secured Transactions**.

(1) The financial statements delivered by Borrower and each Borrower Party are true and correct with no significant change since the date of preparation. Except as disclosed in such financial statements, there are no liabilities (fixed or contingent) affecting any Project, Borrower or any Borrower Party. Except as disclosed in such financial statements, there is no litigation, administrative proceeding, investigation or other legal action (including any proceeding under any state or federal bankruptcy or insolvency law) pending or, to the knowledge of Borrower, threatened, against any Project, Borrower or any Borrower Party which if adversely determined could have a material adverse effect on such party, such Project or the Loan.

(2) Neither Borrower nor any Subsidiary is, or has been, bound (whether as a result of a merger or otherwise) as a debtor under a pledge or security agreement entered into by another Person, which has not heretofore been terminated.

Section 4.4 **Taxes and Assessments**. Each Project is comprised of one or more parcels, each of which constitutes a separate tax lot and none of which constitutes a portion of any other tax lot. Except as otherwise shown on the Title Insurance Policies, there are no pending or, to Borrower's best knowledge, proposed, special or other assessments for public improvements or otherwise affecting any Project, nor are there any contemplated improvements to any Project that may result in such special or other assessments.

Section 4.5 **Other Agreements; Defaults**. Neither Borrower nor any Borrower Party is a party to any agreement or instrument or subject to any court order, injunction, permit, or restriction which might adversely affect in any material respect any Project or the business, operations, or condition (financial or otherwise) of Borrower or any Borrower Party. Neither Borrower nor any Borrower Party is in violation of any agreement which violation would have an adverse effect in any material respect on any Project, Borrower, or any Borrower Party or Borrower's or any Borrower Party's business, properties, or assets, operations or condition, financial or otherwise.

Section 4.6 **Compliance with Law**.

(1) To the best of Borrower's knowledge, Borrower and each Borrower Party have all requisite licenses, permits, franchises, qualifications, certificates of occupancy or other governmental authorizations to own, lease and operate the Projects and carry on its business. Except as set forth in the zoning reports and the property condition reports obtained by Lender in connection with the Loan and listed in Schedule 4.6 attached hereto, each Project is in compliance with all applicable zoning, subdivision, building and other legal requirements and is free of structural defects. Except as set forth in the property condition reports obtained by Lender in connection with the Loan, each Project's building systems are in good working order, subject to ordinary wear and tear. Except as set forth in the zoning reports obtained by Lender in connection with the Loan and listed in Schedule 4.6 attached hereto, no Project constitutes, in whole or in part, a legally non-conforming use under applicable legal requirements.

(2) No condemnation has been commenced or, to Borrower's knowledge, is contemplated with respect to all or any portion of any Project or for the relocation of roadways providing access to any Project.

(3) Each Project has adequate rights of access to public ways and is served by adequate water, sewer, sanitary sewer and storm drain facilities. All public utilities necessary or convenient to the full use and enjoyment of each Project are located in the public right-of-way abutting such Project, and all such utilities are connected so as to serve such Project without passing over other property, except to the extent such other property is subject to a perpetual easement for such utility benefiting such Project. All roads necessary for the full utilization of each Project for its current purpose have been completed and dedicated to public use and accepted by all governmental authorities.

Section 4.7 **Location of Borrower**. Borrower's and each Subsidiary's principal place of business and chief executive offices are located at the address stated in Section 12.1 and, except as otherwise set forth in Schedule 4.1, Borrower and each Subsidiary at all times has maintained its principal place of business and chief executive office at such location or at other locations within the same state.

Section 4.8 **ERISA.**

(1) As of the Closing Date and throughout the term of the Loan, (a) neither Borrower nor any Subsidiary is nor will be an "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), which is subject to Title I of ERISA, and (b) the assets of Borrower and each Subsidiary do not and will not constitute "plan assets" of one or more such plans for purposes of Title I of ERISA; and

(2) As of the Closing Date and throughout the term of the Loan (a) neither Borrower nor any Subsidiary is nor will not be a "governmental plan" within the meaning of Section 3(3) of ERISA and (b) transactions by or with Borrower and each Subsidiary are not and will not be subject to state statutes applicable to Borrower or any Subsidiary regulating investments of and fiduciary obligations with respect to governmental plans.

(3) Neither Borrower nor any Subsidiary has any employees.

Section 4.9 **Margin Stock**. No part of proceeds of the Loan will be used for purchasing or acquiring any "margin stock" within the meaning of Regulations T, U or X of the Board of Governors of the Federal Reserve System.

Section 4.10 **Tax Filings**. Borrower and each Borrower Party have filed (or have obtained effective extensions for filing) all federal, state and local tax returns required to be filed and have paid or made adequate provision for the payment of all federal, state and local taxes, charges and assessments payable by Borrower and each Borrower Party, respectively.

Section 4.11 **Solvency**. Giving effect to the Loan, the fair saleable value of Borrower's assets exceeds and will, immediately following the making of the Loan, exceed

Borrower's total liabilities, including, without limitation, subordinated, unliquidated, disputed and contingent liabilities. The fair saleable value of Borrower's assets is and will, immediately following the making of the Loan, be greater than Borrower's probable liabilities, including the maximum amount of its contingent liabilities on its Debts as such Debts become absolute and matured. Borrower's assets do not and, immediately following the making of the Loan will not, constitute unreasonably small capital to carry out its business as conducted or as proposed to be conducted. Borrower does not intend to, and does not believe that it will, incur Debts and liabilities (including contingent liabilities and other commitments) beyond its ability to pay such Debts as they mature (taking into account the timing and amounts of cash to be received by Borrower and the amounts to be payable on or in respect of obligations of Borrower). Giving effect to the Contribution Agreement, the fair saleable value of each Subsidiary's assets exceeds and will, immediately following the making of the Loan, exceed each Subsidiary's total liabilities, including subordinated, unliquidated, disputed and contingent liabilities. The fair saleable value of each Subsidiary's assets is and will, immediately following the making of the Loan and the encumbrance of the Projects by the Mortgages, be greater than each Subsidiary's probable liabilities, including the maximum amount of its contingent liabilities on its Debts as such Debts become absolute and matured. No Subsidiary's assets constitute and, immediately following the making of the Loan and the encumbrance of the Projects by the Mortgages will not constitute, unreasonably small capital to carry out its business as conducted or as proposed to be conducted. No Subsidiary intends to, nor does any Subsidiary believe that it will, incur Debts and liabilities (including contingent liabilities and other commitments) beyond its ability to pay such Debts as they mature (taking into account the timing and amounts of cash to be received by such Subsidiary and the amounts to be payable on or in respect of obligations of such Subsidiary). Except as expressly disclosed to Lender in writing, no petition in bankruptcy has been filed by or against Borrower or any Borrower Party in the last seven (7) years, and neither Borrower nor any Borrower Party in the last seven (7) years has ever made an assignment for the benefit of creditors or taken advantage of any insolvency act for the benefit of debtors. Neither Borrower nor any Borrower Party is contemplating either the filing of a petition by it under state or federal bankruptcy or insolvency laws or the liquidation of all or a major portion of its assets or property, and neither Borrower nor any Borrower Party has knowledge of any Person contemplating the filing of any such petition against it.

Section 4.12 **Full and Accurate Disclosure**. No statement of fact made by or on behalf of Borrower or any Borrower Party in this Agreement or in any of the other Loan Documents contains any untrue statement of a material fact or omits to state any material fact necessary to make statements contained herein or therein not misleading. There is no fact presently known to Borrower which has not been disclosed to Lender which adversely affects in any material respect, nor as far as Borrower can foresee, might adversely affect in any material respect, any Project or the business, operations or condition (financial or otherwise) of Borrower or any Borrower Party. All information supplied by Borrower regarding any other Collateral is accurate and complete in all material respects. All evidence of Borrower's and each Borrower Party's identity provided to Lender is genuine, and all related information is accurate.

ARTICLE 5

ENVIRONMENTAL MATTERS

Section 5.1 **Representations and Warranties on Environmental Matters**. To Borrower's knowledge, except as set forth in the Site Assessments, (1) no Hazardous Material is now or was formerly used, stored, generated, manufactured, installed, disposed of or otherwise present at or about any Project or any property adjacent to any Project (except for cleaning and other products currently used in connection with the routine maintenance or repair of the Projects in full compliance with Environmental Laws), (2) all permits, licenses, approvals and filings required by Environmental Laws have been obtained, and the use, operation and condition of the Projects do not, and did not previously, violate any Environmental Laws, and (3) no civil, criminal or administrative action, suit, claim, hearing, investigation or proceeding has been brought or been threatened, nor have any settlements been reached by or with any parties or any liens imposed in connection with any Project concerning Hazardous Materials or Environmental Laws.

Section 5.2 **Covenants on Environmental Matters**.

(1) Borrower shall, and shall cause each Subsidiary to, (a) comply strictly and in all respects with applicable Environmental Laws; (b) notify Lender immediately upon Borrower's or any Subsidiary's discovery of any spill, discharge, release or presence of any Hazardous Material (except for cleaning and other products used in connection with routine maintenance or repair of the Projects in full compliance with Environmental Laws) at, upon, under, within, contiguous to or otherwise affecting any Project which may constitute a violation of Environmental Law; (c) promptly remove such Hazardous Materials and remediate the affected Project in full compliance with Environmental Laws and in accordance with the reasonable recommendations and specifications of an independent environmental consultant approved by Lender; and (d) promptly forward to Lender copies of all orders, notices, permits, applications or other communications and reports in connection with any spill, discharge, release or the presence of any Hazardous Material or any other matters relating to the Environmental Laws or any similar laws or regulations, as they may affect any Project, any Subsidiary or Borrower.

(2) Borrower shall not cause, shall prohibit any other Person within the control of Borrower (including the Subsidiaries) from causing, and shall use prudent, commercially reasonable efforts to prohibit other Persons (including tenants) from causing (a) any spill, discharge or release, or the use, storage, generation, manufacture, installation, or disposal, of any Hazardous Materials (except for cleaning and other products used in connection with routine maintenance or repair of the Projects in full compliance with Environmental Laws) at, upon, under, within or about any Project or the transportation of any Hazardous Materials to or from any Project, (b) any underground storage tanks to be installed at any Project, or (c) any activity that requires a permit or other authorization under Environmental Laws to be conducted at any Project.

(3) Borrower shall provide to Lender, at Borrower's expense promptly upon the written request of Lender from time to time, a Site Assessment for any Project or; if required by Lender, an update to any existing Site Assessment for any Project, to assess the presence or absence of any Hazardous Materials and the potential costs in connection with abatement, cleanup or removal of any Hazardous Materials found on, under, at or within such Project. Borrower shall pay the cost of no more than one such Site Assessment or update for each Project in any twelve (12)-month period, unless Lender's request for a Site Assessment is based on either information provided under Section 5.2(1), a reasonable suspicion of Hazardous Materials at or near a Project, a breach of representations under Section 5.1, or an Event of Default, in which case any such Site Assessment or update shall be at Borrower's expense.

(4) Within 120 days after the Closing Date, Borrower shall cause to be prepared by environmental engineers approved by Lender, and shall deliver to Lender, Operations and Maintenance Programs (collectively, the "**O&M Programs**") for the removal or encapsulation of, or other

action for handling, asbestos-containing materials at the Projects referenced on Schedule 1.1(B) known as "1019 Norwood, MA," "1206 Waltham, MA," 1073 Arvada, CO," "1075 Thornton, CO", "1076 Westminster, CO," "1195 Lanham, MD," "1197 Morrisville, PA" and "1198 Philadelphia, PA" (collectively, the "**O&M Projects**"'). Borrower shall immediately implement the O&M Programs. Prior to the commencement of any construction, rehabilitation, modification or renovation at any O&M Project, including any such work which requires the removal of any materials or improvements of any kind in connection with the ceiling, subflooring, floor tiles, baseboard, wall texture, pipe insulation and other portions of such Project containing asbestos-containing materials (the "**ACM-Related Work**"), all ACM-Related Work shall be implemented in accordance with the procedures and programs in the O&M Program for such Project and all applicable governmental requirements. Each O&M Program and work resulting therefrom shall be conducted by an accredited, licensed, abatement contractor using state-of-the-art work practices and procedures and shall include all monitoring and project management performed by an accredited asbestos consultant. Borrower shall deliver to Lender promptly when available, copies of all reports, notices, submittals, permits, licenses, and certificates relating to any O&M Program. For each O&M Program, until all matters in such O&M Program have been satisfied, Borrower shall deliver to Lender, on or before the first day of each Loan Year, evidence of an annual inspection by the environmental engineers for the O&M Project covered thereby, addressing the status of affected space requiring ACM-Related Work or other action with respect to Hazardous Materials. Borrower shall follow the procedures of the O&M Programs with respect to any additional Hazardous Materials revealed by any annual inspection. All fees and expenses incurred for all such inspections and review and approval of any O&M Program shall be paid by Borrower.

Section 5.3 **Allocation of Risks and Indemnity**. As between Borrower and Lender, and except as expressly set forth below in this Section 5.3, all risk of loss associated with non-compliance with Environmental Laws, or with the presence of any Hazardous Material at, upon, within, contiguous to or otherwise affecting the Projects, shall lie solely with Borrower. Accordingly, except as expressly set forth below in this Section 5.3, Borrower shall bear all risks and costs associated with any loss (including any loss in value attributable to Hazardous

Materials), damage or liability therefrom, including all costs of removal of Hazardous Materials or other remediation required under this Agreement. Borrower shall at all times indemnify, defend and hold Lender harmless from and against any and all claims, suits, actions, debts, damages, losses, liabilities, litigations, judgments, charges, costs and expenses (including reasonable costs of defense), of any nature whatsoever proffered or incurred by Lender, whether as mortgagee or beneficiary under the Mortgages, as mortgagee in possession, or as successor-in-interest to Borrower or the Subsidiaries by foreclosure deed or deed in lieu of foreclosure, and whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law, including those arising from the joint, concurrent or comparative negligence of Lender, under or on account of the Environmental Laws, including the assertion of any lien thereunder, with respect to: (1) a breach of any representation, warranty or covenant of Borrower contained in this Article 5; (2) any acts performed by Lender pursuant to the provisions of this Article 5; (3) any discharge of Hazardous Materials, the threat of discharge of any Hazardous Materials or the storage or presence of any Hazardous Materials affecting any Project whether or not the same originates or emanates from a Project or any contiguous real estate, including any loss of value of any Project as a result of the foregoing; (4) any costs of removal or remedial action incurred by the United States Government or any costs incurred by any other Person or damages from injury to, destruction of, or loss of natural resources including reasonable costs of assessing such injury, destruction or loss incurred pursuant to any Environmental Laws; (5) liability for personal injury or property damage arising under any statutory or common law tort theory, including without limitation damages assessed for the maintenance of a public or private nuisance or for the carrying on of an abnormally dangerous activity at, upon, under or within any Project; and/or (6) any other environmental matter affecting any Project within the jurisdiction of the Environmental Protection Agency, any other federal agency or any state or local environmental agency. The foregoing notwithstanding, Borrower shall not be liable under the foregoing indemnification to the extent any such loss, liability, damage, claim, cost or expense results solely from Lender's gross negligence or willful misconduct. Borrower's obligations under this Article 5 shall arise upon the discovery of the presence of any Hazardous Material, whether or not the Environmental Protection Agency, any other federal agency or any state or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Materials and whether or not the existence of any such Hazardous Material or potential liability on account thereof is disclosed in any Site Assessment, and shall continue notwithstanding the repayment of the Loan or any transfer or sale of any right, title and interest in the Projects (by foreclosure, deed in lieu of foreclosure or otherwise). Notwithstanding the foregoing, subject to the conditions specified below in this Section 5.3, Borrower shall not be liable under this Section 5.3 for such indemnified matters directly created or arising from events or conditions caused or created by Lender with respect to any Project and first existing after Lender acquires title to such Project by foreclosure or acceptance of a deed in lieu thereof, but only if (a) Borrower delivers to Lender a current site assessment evidencing the presence of no Hazardous Materials on such Project and no violation of any Environmental Laws with respect to such Project not more than ninety (90) days and not less than thirty (30) days prior thereto, and (b) such loss, liability, damage, claim, cost or expense does not directly or indirectly arise from or relate to any release of or exposure to any Hazardous Material (including personal injury or damage to property), non-compliance with any Environmental Laws, or remediation existing or occurring prior to the date Lender acquires title to such Project.

Section 5.4 **Lender's Right to Protect Collateral**. If (1) any discharge of Hazardous Materials or the threat of a discharge of Hazardous Material affecting any Project occurs, whether originating or emanating from such Project or any contiguous real estate, and/or (2) Borrower or any Subsidiary fails to comply with any Environmental Laws or related regulations, Lender may at its election, but without the obligation so to do, give such notices and/or cause such work to be performed at the affected Project and/or take any and all other actions as Lender shall deem necessary or advisable in order to abate the discharge of any Hazardous Material, remove the Hazardous Material or cure Borrower's or such Subsidiary's noncompliance.

Section 5.5 **No Waiver**. Notwithstanding any provision in this Article 5 or elsewhere in the Loan Documents, or any rights or remedies granted by the Loan Documents, Lender does not waive and expressly reserves all rights and benefits now or hereafter accruing to Lender under any "security interest" or "secured creditor" exception under applicable Environmental Laws, as the same may be amended. No action taken by Lender pursuant to the Loan Documents shall be deemed or construed to be a waiver or relinquishment of any such rights or benefits under any "security interest exception."

ARTICLE 6

LEASING MATTERS

Section 6.1 **Representations and Warranties on Leases**. Borrower represents and warrants to Lender with respect to leases of each Project that: (1) the rent roll delivered to Lender is true and correct, and the leases are valid and in full force and effect; (2) the leases (including amendments) are in writing, and there are no oral agreements with respect thereto; (3) the copies of the leases delivered to Lender are true and complete; (4) neither the landlord nor more than (i) five percent (5 %) of the self-storage tenants at any one Project and (ii) five percent (5%) of all self-storage tenants at all Projects are in default under any of the leases; (5) no retail or office tenant is in default under any of the leases which would represent more than five percent (5%) of the Operating Revenues of any one Project or the Projects in aggregate; (6) Borrower has no knowledge of any notice of termination or default with respect to any retail or office lease which would represent more than five percent (5%) of the Operating Revenues of any one Project or the Projects in aggregate (except that Foster-Miller has given notice that it is terminating the Foster-Miller Lease); (7) Borrower has not assigned or pledged any of the leases, the rents or any interests therein except to Lender; (8) no tenant or other party has an option to purchase all or any portion of any Project; (9) no retail or office tenant has the right to terminate its lease prior to expiration of the stated term of such lease; (10) not more than five percent (5%) of the self-storage tenants at any Project has prepaid more than one month's rent in advance (except for bona fide security deposits not in excess of an amount equal to two month's rent), and no self-storage tenants have prepaid more than twelve month's rent in advance; (11) no retail or office tenant has prepaid more than one month's rent in advance (except for bona fide security deposits not in excess of an amount equal to two month's rent); and (12) all existing retail and office leases are subordinate to the applicable Mortgages either pursuant to their terms or a recorded subordination agreement, or are month-to-month leases.

Section 6.2 **Standard Lease Form; Approval Rights**. Except as provided below, all future leases and other rental arrangements shall in all respects be approved by Lender and shall be on a standard lease form provided to Lender with no material modifications (except as approved by Lender). Except as provided below, all retail and office leases and other rental arrangements shall in all respects be approved by Lender and shall be on a standard lease form approved by Lender with no material modifications (except as approved by Lender). Lender hereby approves of the Borrower's current standard forms for self-storage leases and office/retail leases which have been provided to Lender. Retail and office lease forms shall provide that the tenant shall attorn to Lender, and that any cancellation, surrender, or amendment of such lease without the prior written consent of Lender shall be voidable by Lender. Borrower shall, and shall cause each Subsidiary to, hold, in trust, all tenant security deposits related to Borrower's and such Subsidiary's Project(s) in the manner required by the applicable leases and applicable law. Within ten (10) days after Lender's request, Borrower shall furnish to Lender a statement of all tenant security deposits, copies of all retail and office leases not previously delivered to Lender and a current rent roll for each Project, each certified by Borrower as being true and correct. Notwithstanding anything contained in the Loan Documents, Lender's approval shall not be required for future self-storage leases or self-storage lease extensions at a Project if there exists no Event of Default. Notwithstanding anything contained in the Loan Documents, Lender's approval shall not be required for future retail or office leases or retail or office lease extensions at a Project if the following conditions are satisfied: (1) there exists no Potential Default or Event of Default; (2) the lease is on the standard lease form approved by Lender with no material modifications (except as approved by Lender, such approval not to be unreasonably withheld or delayed); (3) the lease does not conflict with any restrictive covenant affecting the Project or any other lease for space in the Project; and (4) the leased premises, when combined with all other space in the Project leased to the same tenant or any Affiliate thereof, are not greater than 5,000 rentable square feet, and the lease term is at least 36 months (but not more than 60 months).

Section 6.3 **Covenants**. Borrower shall, and shall cause each Subsidiary to, (1) perform the obligations which Borrower or such Subsidiary is required to perform under the leases; (2) enforce the obligations to be performed by the tenants under (i) self-storage leases to the extent customary in the ordinary course of Borrower's business consistent with prudent property management practices and (ii) retail and office leases; (3) promptly furnish to Lender any notice of default or termination received by Borrower or any Subsidiary from, or given by Borrower or any Subsidiary to, any retail or office tenant unless such lease is for less than 1,000 rentable square feet; (4) not collect any rents from the self-storage tenants at any Project for more than thirty (30) days in advance of the time when the same shall become due, except for bona fide security deposits not in excess of an amount equal to two months rent, and provided that the aggregate prepaid rents collected for more than one month in advance for any Project shall not exceed five percent (5%) of the annualized gross revenues from such Project; (5) not collect any rents from retail or office tenants for more than thirty (30) days in advance of the time when the same shall become due, except for bona fide security deposits not in excess of an amount equal to two months rent; (6) not enter into any ground lease or master lease of any part of any Project; (7) not further assign or encumber any lease; (8) not, except with Lender's prior written consent, cancel or accept surrender or termination of any retail or office lease of not less than 1,000 rentable square feet at any Project except in the ordinary course of business, consistent with prudent property management practices; and (9) not, except with Lender's prior written consent,

modify or amend any retail or office lease (except for non-material modifications and amendments entered into in the ordinary course of business, consistent with prudent property management practices for the particular property type, not affecting the economic terms of the lease) of not less than 1,000 rentable square feet at any Project, and any action in violation of clauses (6), (7), (8), and (9) of this Section 6.3 shall be void at the election of Lender.

Section 6.4 **Tenant Estoppels**. At Lender's request, Borrower shall use commercially reasonable efforts to obtain and furnish to Lender, written estoppels in form and substance reasonably satisfactory to Lender, executed by self-storage tenants under any "corporate" or master leases of any part of any Project and by retail and office tenants under any leases of any part of any Project accounting for more than ten percent (10%) of the net rentable square footage of such Project and by retail and office tenants under any leases of any part of any Project in excess of 5,000 square feet, and confirming the term, rent, and other provisions and matters relating to the leases.

Section 6.5 **Project Information**. The information in Schedule 1.1(B) hereof with respect to each Project is correct.

ARTICLE 7

FINANCIAL REPORTING

Section 7.1 **Financial Statements**.

(1) **Monthly Reports**. Within thirty (30) days after the end of each calendar month, Borrower shall furnish to Lender, on a Project-by-Project basis, a current (as of the calendar month just ended) balance sheet, a detailed operating statement (showing monthly activity and year-to-date) stating Operating Revenues, Operating Expenses and Net Cash Flow for the calendar month just ended, an updated rent roll for each Project, and, as requested by Lender, a written statement setting forth any variance from the annual budget, a general ledger, copies of bank statements and bank reconciliations and other documentation supporting the information disclosed in the most recent financial statements.

(2) **Annual Reports**. Within ninety (90) days after the end of Borrower's fiscal years, Borrower shall furnish to Lender, on a Project-by-Project basis, a current (as of the end of such fiscal year) balance sheet, a detailed operating statement stating Operating Revenues, Operating

Expenses and Net Cash Flow for each of Borrower and each Project, and, if required by Lender at any time after an Event of Default has occurred (even if such Event of Default is subsequently waived by Lender in its sole discretion), prepared on a review basis and certified by an independent public accountant satisfactory to Lender, provided that in such event Borrower shall have an additional sixty (60) days to deliver such certified financial statements.

(3) **Certification: Supporting Documentation**. Each such financial statement shall be in scope and detail satisfactory to Lender and certified by the chief financial representative of Borrower.

(4) **Tax Returns**. Borrower shall furnish to Lender copies of Borrower's and each Subsidiary's filed federal, state and (if applicable) local income tax returns for each taxable year (with all forms and supporting schedules attached) within thirty (30) days after filing. Alternatively, if Borrower and each Subsidiary are included in a consolidated tax return pursuant to applicable tax law, delivery of such consolidated tax statements (with all forms and supporting schedules attached) within thirty (30) days after filing shall satisfy this requirement.

Section 7.2 **Accounting Principles**. All financial statements shall be prepared in accordance with generally accepted accounting principles, consistently applied from year to year. If the financial statements are prepared on an accrual basis, such statements shall be accompanied by a reconciliation to cash basis accounting principles.

Section 7.3 **Other Information**. Borrower shall deliver to Lender such additional information regarding Borrower, the Subsidiaries, its business, any Borrower Party, and the Projects within thirty (30) days after Lender's request therefor.

Section 7.4 **Annual Budget**. Borrower shall provide to Lender its proposed annual capital improvements budget for each Project for each fiscal year for Lender's review and approval, which approval shall not be unreasonably withheld, and Borrower shall provide to Lender its proposed annual operating budget for each Project for such fiscal year for Lender's review. Both such budgets shall be provided within ninety (90) days after the commencement of each fiscal year.

Section 7.5 **Audits**. Lender's employees and third party consultants shall be entitled to perform such financial investigations and audits of Borrower's and each Subsidiary's books and records as Lender shall deem necessary. Borrower shall reimburse Lender for the costs of (i) one financial audit of Borrower, the Subsidiaries and all Projects per Loan Year, (ii) any financial audits required in connection with determining the Debt Service Coverage in accordance with this Agreement, and (iii) any additional financial audits performed while any Event of Default exists. Borrower shall permit Lender and Lender's agents and consultants to examine such records, books and papers of Borrower and each Subsidiary which reflect upon its financial condition, the income and expenses relative to the Projects and the representations set forth in Article 9. Borrower authorizes Lender to communicate directly with Borrower's and each Subsidiary's independent certified public accountants; provided that Borrower shall have the right to participate in all communications with such accountants, and Borrower agrees to not impair, impede or delay such communications. Borrower authorizes such accountants to disclose to Lender any and all financial statements and other supporting financial documents and schedules, including copies of any management letter, with respect to the business, financial condition and other affairs of Borrower and each Subsidiary.

ARTICLE 8

COVENANTS

Borrower covenants and agrees with Lender as follows:

Section 8.1 **Due on Sale and Encumbrance; Transfers of Interests**. Without the prior written consent of Lender,

(1) Except as permitted under Section 2.8, no Transfer shall occur or be permitted, nor shall Borrower enter into any easement or other agreement granting rights in or restricting the use or development of any Project; and

(2) no Transfer shall occur or be permitted alone or in the aggregate which would (a) cause Borrower to cease to own one hundred percent (100%) of the beneficial interests in the Non-New Jersey Subsidiaries and the Non-New Jersey Projects, (b) cause either Borrower or ESP 7 to cease to own one hundred percent (100%) of the beneficial interests in the New Jersey Subsidiaries and the New Jersey Projects, (c) cause either (i) ESP 7 to cease to own one hundred percent of the ownership interests in Borrower, or (ii) Extra Space Storage LLC, a Delaware limited liability company ("**ESS**") to cease to own one hundred percent of the ownership interests in Borrower, (d) cause ESS to own less than (i) fifty-one percent (51%) of the ownership interests in ESP 7 or (ii) one hundred percent (100%) of the ownership interests in the general partner of ESP 7 (unless (A) ESS directly owns 100% of the ownership interests in Borrower under subsection (c)(ii) above and (B) ESP 7 no longer directly owns any membership interest in any New Jersey Subsidiary that owns any Project serving as Collateral), (e) cause ESS to cease to be wholly-owned and controlled by a limited partnership (the "**REIT OP**") functioning as the REIT's (as defined below) operating partnership, (f) cause either Extra Space Management, Inc. (so long as Extra Space Management, Inc. remains a Qualified Manager), or a Qualified Manager (defined below), to cease to be associated with and directly involved with day to day operational and management responsibilities for the business of the REIT OP, ESS and Borrower or (g) result in a new general partner, member or limited partner having the ability to control the affairs of Borrower or ESP 7 being admitted to or created in Borrower or ESP 7 (or result in any existing general partner or member or controlling limited partner withdrawing from Borrower or ESP 7).

As used in this Agreement, "**Transfer**" shall mean any direct or indirect sale, transfer, conveyance, installment sale, master lease, mortgage, pledge, encumbrance, grant of Lien or other interest, license, lease, alienation or assignment, whether voluntary or involuntary, of all or any portion of the direct or indirect legal or beneficial ownership of, or any interest in (a) any Project or any part thereof or (b) Borrower or ESP 7, including any agreement to transfer or cede to another Person any voting, management or approval rights, or any other rights, appurtenant to any such legal or beneficial ownership or other interest. "Transfer" is specifically intended to include any pledge or assignment, directly or indirectly, of a controlling interest in Borrower or ESP 7 or any of either's general partner, controlling limited partner or controlling member for purposes of securing so-called "mezzanine" indebtedness. "Transfer" shall not include (i) the leasing of individual units within any Project so long as Borrower complies with the provisions of the Loan Documents relating to such leasing activity; or (ii) the transfer of limited partner or non-managing member interests in ESS so long as the transfer does not violate the provisions of Sections 8.1(2), and does not violate the provisions of Article 9. As used in this Section 3.9, "**control**", and the correlative terms "**controlled by**" and "**controlling**", shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the business and affairs of the entity in question by reason of ownership of beneficial interests, by contract or otherwise. As used herein, "**Qualified Manager**" shall mean a reputable and experienced owner, operator developer or manager of Class "A" or "B" self-storage facilities that (1) has at least ten (10) years experience in the ownership, operation, development or management of Class "A" or "B" self-storage facilities, (2) is the owner, operator, developer or manager of self-storage facilities containing, in the aggregate, not less than 2,000,000 rentable square feet, and (3) is not, and within the last seven (7) years has not, been the subject of a bankruptcy proceeding. As used herein, "**REIT**" shall mean Extra Space Storage Inc., or any successor corporation which has one or more classes of shares or other ownership interests that are registered with the Securities Exchange Commission and are publicly traded on a national securities exchange or in the over-the-counter securities market.

Without limiting the foregoing, Borrower further agrees that it will require each Person that proposes to become a partner, member or shareholder (each such Person, an "**Interest Holder**") in Borrower after the Closing Date to sign and deliver to Borrower, within thirty (30) days after such transfer (and Borrower shall deliver to Lender promptly after receipt), a certificate executed by a duly authorized officer of the new Interest Holder containing representations, warranties and covenants substantially the same as the representations, warranties and covenants provided by Borrower in Article 9 hereof.

Section 8.2 **Taxes; Charges**. Borrower shall pay (or cause the Subsidiaries to pay) before any fine, penalty, interest or cost may be added thereto, and shall not enter into (or permit any Subsidiary to enter into) any agreement to defer, any real estate taxes and assessments, franchise taxes and charges, and other governmental charges that may become a Lien upon any Project or become payable during the term of the Loan, and will promptly furnish Lender with evidence of such payment; however, Borrower's compliance with Section 3.4 of this Agreement relating to impounds for taxes and assessments shall, with respect to payment of such taxes and assessments, be deemed compliance with this Section 8.2. Borrower shall not, and shall not permit any Subsidiary to, suffer or permit the joint assessment of any Project with any other real property constituting a separate tax lot or with any other real or personal property. Borrower shall, or shall cause each Subsidiary to, pay when due all claims and demands of mechanics, materialmen, laborers and others which, if unpaid, might result in a Lien on Borrower's or such Subsidiary's Project; however, Borrower or any Subsidiary, as applicable, may contest the validity of such claims and demands so long as (1) Borrower notifies Lender that Borrower or such Subsidiary intends to contest such claim or demand, (2) Borrower or such Subsidiary provides Lender with an indemnity, bond or other security satisfactory to Lender (including an endorsement to the Title Insurance Policies insuring against such claim or demand) assuring the discharge of Borrower or such Subsidiary's obligations for such claims and demands, including interest and penalties, and (3) Borrower or such Subsidiary is diligently contesting the same by appropriate legal proceedings in good faith and at its own expense and

concludes such contest prior to the tenth (10th) day preceding the earlier to occur of the Maturity Date or the date on which the applicable Project is scheduled to be sold for non-payment.

Section 8.3 **Control; Management**. Without the prior written consent of Lender, there shall be no change in the day-to-day control and management of Borrower or Borrower's general partner or managing member, and no change in their respective organizational documents relating to control over Borrower, Borrower's general partner or managing member and/or any Project. Borrower shall not, nor shall Borrower permit any Subsidiary to, enter into, terminate, replace or appoint any property manager or terminate or amend the property management agreement in any material respect for any Project without Lender's prior written approval. Any change in ownership or control of a property manager shall be cause for Lender to re-approve such property manager and its property management agreement. Each property manager shall hold and maintain all necessary licenses, certifications and permits required by law. Borrower shall fully perform all of its covenants, agreements and obligations under any property management agreement to which it is a party. Borrower shall cause each Subsidiary to fully perform all of its covenants, agreements and obligations under any property management agreement to which Subsidiary is a party. Notwithstanding anything to the contrary in this Section 8.3, changes in the individual officers and directors and managers of the REIT and its subsidiaries shall be permitted without the consent of Lender so long as such entities maintain their status as Qualified Managers.

Section 8.4 **Operation; Maintenance; Inspection**. Borrower shall, and shall cause each Subsidiary to, observe and comply with all legal requirements applicable to its existence and to the ownership, use and operation of the Projects. Borrower shall, and shall cause the Subsidiaries to, maintain the Projects in good condition and promptly repair any damage or casualty. Borrower shall not, and shall not permit any Subsidiary to, without the prior written consent of Lender, undertake any material alteration of any Project or permit any of the fixtures or personalty owned by Borrower or any Subsidiary to be removed at any time from any Project, unless the removed item is removed temporarily for maintenance and repair or, if removed permanently, is obsolete and is replaced by an article of equal or better suitability and value, owned by Borrower or such Subsidiary and free and clear of any Liens except those in favor of Lender. Borrower shall, and shall cause the Subsidiaries to, permit Lender and its agents, representatives and employees, upon reasonable prior notice to Borrower, to inspect the Projects and conduct such environmental and engineering studies as Lender may require, provided such inspections and studies do not materially interfere with the use and operation of the Projects. Notwithstanding the foregoing, Borrower and its Subsidiaries shall be permitted to convert any or all of the existing office, retail or industrial space at the "1073 Arvada, CO" Project or the "1206 Waltham, MA" Project to self storage uses, or to otherwise build out such existing spaces for future tenants; provided that such activities do not violate other provisions of this Agreement, including without limitation prohibitions against Liens and other Debt.

Section 8.5 **Taxes on Security**. Borrower shall pay all taxes, charges, filing, registration and recording fees, excises and levies payable with respect to the Note or the Liens created or secured by the Loan Documents, other than income, franchise and doing business taxes imposed on Lender. If there shall be enacted any law (1) deducting all or a portion of the Loan from the value of any Project for the purpose of taxation, (2) affecting any Lien on any Project, or (3) changing existing laws of taxation of mortgages, deeds of trust, security deeds, or debts secured by real property, or changing the manner of collecting any such taxes, Borrower shall promptly pay to Lender, on demand, all taxes, costs and charges for which Lender is or may be liable as a result thereof; however, if such payment would be prohibited by law or would render the Loan usurious, then instead of collecting such payment, Lender may declare all amounts owing under the Loan Documents to be immediately due and payable.

Section 8.6 **Legal Existence; Name, Etc**. Borrower shall, and shall cause each Subsidiary to, preserve and keep in full force and effect its existence as, and at all times operate as, a Single Purpose Entity. Borrower and each general partner or managing member in Borrower shall, and shall cause each Subsidiary to, preserve and keep in full force and effect its entity status, franchises, rights and privileges under the laws of the state of its formation, and all qualifications, licenses and permits applicable to the ownership, use and operation of the Projects. Neither Borrower, ESP 7 nor any general partner or managing member of Borrower or ESP 7 shall wind up, liquidate, dissolve, reorganize, merge, or consolidate with or into any Person, or permit any Subsidiary or Affiliate of Borrower or ESP 7 to do so. Without limiting the foregoing, neither Borrower nor ESP 7 shall, nor shall either permit any Subsidiary to, reincorporate or reorganize itself under the laws of any jurisdiction other than the jurisdiction in which it is incorporated or organized as of the Closing Date. Borrower, ESP 7 and each general partner or managing member in Borrower and ESP 7 shall, and shall cause each Subsidiary to, conduct business only in its own name and shall not change its name, identity, organizational structure, state of formation or the location of its chief executive office or principal place of business unless Borrower (1) shall have obtained the prior written consent of Lender to such change, and (2) shall have taken all actions necessary or requested by Lender to file or amend any financing statement or continuation statement to assure perfection and continuation of perfection of security interests under the Loan Documents. Borrower and ESP 7 (and each general partner or managing member in Borrower and ESP 7, if any) shall, and shall cause each Subsidiary to, maintain its separateness as an entity, including maintaining separate books, records, and accounts and observing corporate and partnership formalities independent of any other entity, shall pay its obligations with its own funds and shall not commingle funds or assets with those of any other entity. If Borrower or any Subsidiary does not have an organizational identification number and later obtains one, Borrower shall promptly notify Lender of such organizational identification number.

Section 8.7 **Affiliate Transactions**. Without the prior written consent of Lender, Borrower, ESP 7 and the Subsidiaries shall not engage in any transaction affecting any Project with an Affiliate of Borrower or of any Borrower Party except for transactions for which (i) the terms are commercially reasonable and competitive with amounts that would be paid to or received from third parties on an "arm's length" basis, (ii) the terms are reduced to a writing covering all material aspects of such arrangement, and (iii) the agreement is terminable without cause by Borrower, ESP 7, Subsidiary or, after the occurrence of an Event of Default, Lender, without penalty or fee, upon no more than thirty (30) days' prior written notice.

Section 8.8 **Limitation on Other Debt**. Borrower (and each general partner or managing member in Borrower, if any) shall not, without the prior written consent of Lender, (1) incur any Debt other than the Loan and (2) permit the Subsidiaries to incur any Debt other than their obligations under the Mortgages and customary trade payables which are payable, and shall be paid, within sixty (60) days of when incurred.

Section 8.9 **Further Assurances**. Borrower shall promptly (1) cure, or cause the appropriate Borrower Party to cure, any defects in the execution and delivery of the Loan Documents, (2) provide, and to cause each Borrower Party to provide, Lender such additional information and documentation on Borrower's and each Borrower Party's legal or beneficial ownership, policies, procedures and sources of funds as Lender deems necessary or prudent to enable Lender to comply with Anti-Money Laundering Laws as now in existence or hereafter amended, and (3) execute and deliver, or cause to be executed and delivered, all such other documents, agreements and instruments as Lender may reasonably request to further evidence and more fully describe the collateral for the Loan, to correct any omissions in the Loan Documents, to perfect, protect or preserve any Liens created under any of the Loan Documents, or to make any recordings, file any notices, or obtain any consents, as may be necessary or appropriate in connection therewith. From time to time upon the written request of Lender, Borrower shall deliver to Lender a schedule of the name, legal domicile address and jurisdiction of organization, if applicable, for each Borrower Party and each holder of a direct legal interest in Borrower or ESP 7.

Section 8.10 **Estoppel Certificates**. Borrower, within ten (10) days after request, shall furnish to Lender a written statement, duly acknowledged, setting forth the amount due on the Loan, the terms of payment of the Loan, the date to which interest has been paid, whether any offsets or defenses exist against the Loan and, if any are alleged to exist, the nature thereof in detail, and such other matters as Lender reasonably may request.

Section 8.11 **Notice of Certain Events**. Borrower shall promptly notify Lender of (1) any Potential Default or Event of Default, together with a detailed statement of the steps being taken to cure such Potential Default or Event of Default; (2) any notice of default received by Borrower or any Subsidiary under other obligations relating to any Project or otherwise material to Borrower's or any Subsidiary's business; and (3) any threatened or pending legal, judicial or regulatory proceedings, including any dispute between Borrower or any Subsidiary and any governmental authority, affecting Borrower, any Subsidiary or any Project in any material respect.

Section 8.12 **Indemnification.** Except for matters caused by Lender's gross negligence or willful misconduct, Borrower shall indemnify, defend and hold Lender harmless from and against any and all losses, liabilities, claims, damages, expenses, obligations, penalties, actions, judgments, suits, costs and disbursements (including the reasonable fees and actual expenses of Lender's counsel) of any kind or nature whatsoever, including those arising from the joint, concurrent, or comparative negligence of Lender, in connection with (1) any inspection, review or testing of or with respect to the Projects, (2) any investigative, administrative, mediation, arbitration, or judicial proceeding, whether or not Lender is designated a party thereto, commenced or threatened at any time (including after the repayment of the Loan) in any way related to the execution, delivery or performance of any Loan Document or to any Project, (3) any proceeding instituted by any Person claiming a Lien, and (4) any brokerage commissions or finder's fees claimed by any broker or other party in connection with the Loan, any Project, or any of the transactions contemplated in the Loan Documents, except to the extent any of the foregoing is caused by Lender's gross negligence or willful misconduct.

Section 8.13 **Application of Operating Revenues**. All Operating Revenues shall be applied to the payment of Debt Service and other payments due under the Loan Documents, taxes, assessments, water charges, sewer rents and other governmental charges levied, assessed or imposed against the Projects, insurance premiums, operations and maintenance charges relating to the Projects, and other obligations of the lessor under leases of space at each Project, before using Operating Revenues for any other purpose.

Section 8.14 **Representations and Warranties**. Borrower will cause all representations and warranties to remain true and correct all times while any portion of the Loan remains outstanding.

Section 8.15 **Immediate Repairs**. Within six (6) months after the Closing Date, Borrower shall deliver to Lender evidence reasonably satisfactory to Lender that Borrower has completed, Lien free and in accordance with applicable Laws, the immediate repairs work described in the table set forth in Schedule 8.15 for the designated Projects (as such work is more particularly described in the engineering reports for such Projects prepared by Lender's consultant(s) in connection with the Loan closing, copies of which have been delivered to Borrower).

Section 8.16 **1206 Waltham, MA Lease**. On or before July 31, 2008, Borrower shall either (i) deliver to Lender evidence reasonably satisfactory to Lender that Foster-Miller or one or more other tenants acceptable to Lender have leased the entirety of the space currently covered by the Foster-Miller Lease through at least October 31, 2013 (with no early termination rights or options) at an annual base rental rate of not less than $22.00 per square foot plus percentage rent and other amounts equivalent to those due under the Foster-Miller Lease (and such lease or leases otherwise comply with the terms of this Agreement), and each such tenant has accepted possession of its leased premises, has commenced paying rent, is not then otherwise in default under its lease, and has executed and delivered to Lender an estoppel certificate, in form and substance satisfactory to Lender, confirming the foregoing matters and such other matters concerning such tenant and its lease as Lender reasonably requires, or (ii) have (A) caused the Project known as "1206 Waltham, MA" to be released from the Lien of the Loan Documents in accordance with Section 2.8 above and (B) added one or more Additional Project(s) in accordance with Section 2.9 above which have an aggregate Valuation Amount that equals or exceeds the Valuation Amount of the "1206 Waltham, MA" Project, and which would increase the Debt Service Coverage to at least 1.15:1.00 based on an Applicable Margin of 2.05% and assuming the outstanding Loan balance equals the Maximum Commitment. Should Borrower fail to satisfy the requirements set forth in either of clause (i) or (ii) above, Lender, in its sole and absolute discretion, may decrease the Valuation Amount and the Underwritten NOI of the "1206 Waltham, MA" Project to exclude any value or income attributable to retail or office uses.

Section 8.17 **Contribution Agreement.** Without the prior written consent of Lender, Borrower and the Subsidiaries shall not amend, modify or terminate the Contribution Agreement.

ARTICLE 9

ANTI-MONEY LAUNDERING AND INTERNATIONAL TRADE CONTROLS

Section 9.1 **Compliance with International Trade Control Laws and OFAC Regulations**. Borrower represents, warrants and covenants to Lender that:

(1) It is not now nor shall it be at any time until after the Loan is fully repaid a Person with whom a U.S. Person, including a Financial Institution, is prohibited from transacting business of the type contemplated by this Agreement, whether such prohibition arises under U.S. law, regulation, executive orders and lists published by the OFAC (including those executive orders and lists published by OFAC with respect to Specially Designated Nationals and Blocked Persons) or otherwise.

(2) No Borrower Party and no Person who owns a direct interest in Borrower is now nor shall be at any time until after the Loan is fully repaid a Person with whom a U.S. Person, including a Financial Institution, is prohibited from transacting business of the type contemplated by this Agreement, whether such prohibition arises under U.S. law, regulation, executive orders and lists published by the OFAC (including those executive orders and lists published by OFAC with respect to Specially Designated Nationals and Blocked Persons) or otherwise.

Section 9.2 **Borrower's Funds**. Borrower represents, warrants and covenants to Lender that:

(1) It has taken, and shall continue to take until after the Loan is fully repaid, such measures as are required by law to verify that the funds invested in the Borrower are derived (a) from transactions that do not violate U.S. law nor, to the extent such funds originate outside the United States, do not violate the laws of the jurisdiction in which they originated; and (b) from permissible sources under U.S. law and to the extent such funds originate outside the United States, under the laws of the jurisdiction in which they originated.

(2) To the best of its knowledge, neither Borrower, nor any Borrower Party, nor any holder of a direct interest in Borrower, nor any Person providing funds to Borrower (a) is under investigation by any governmental authority for, or has been charged with, or convicted of, money laundering, drug trafficking, terrorist-related activities, any crimes which in the United States would be predicate crimes to money laundering, or any violation of any Anti-Money Laundering Laws; (b) has been assessed civil or criminal penalties under any Anti-Money Laundering Laws; and (c) has had any of its/his/her funds seized or forfeited in any action under any Anti-Money Laundering Laws.

(3) Borrower shall make payments on the Loan using funds invested in Borrower, Operating Revenues or insurance proceeds unless otherwise agreed to by Lender.

(4) To the best of Borrower's knowledge, as of the Closing Date and at all times during the term of the Loan, all Operating Revenues are and will be derived from lawful business activities of Project tenants or other permissible sources under U.S. law. Notwithstanding the foregoing, Borrower shall not be in violation of this Section 9.2(4) if upon discovery that Operating Revenues are derived from the unlawful business activity of a Project tenant, or from any impermissible source under U.S. law, Borrower takes commercially reasonable steps to terminate or remove or prohibit the same.

(5) During the term of the Loan and on the Maturity Date, Borrower will take reasonable steps to verify that funds used to make payments on the Loan and to repay the Loan in full (whether in connection with a refinancing, asset sale or otherwise) are from sources permissible under U.S. law and to the extent such funds originate outside the United States, permissible under the laws of the jurisdiction in which they originated.

ARTICLE 10

EVENTS OF DEFAULT

Each of the following shall constitute an Event of Default under the Loan:

Section 10.1 **Payments**. Borrower's failure to pay any regularly scheduled installment of principal, interest or other amount due under the Loan Documents within five (5) days after the date when due, or Borrower's failure to pay the Loan at the Maturity Date, whether by acceleration or otherwise.

Section 10.2 **Insurance**. Borrower's failure to maintain or cause any Subsidiary to maintain insurance as required under Section 3.1 of this Agreement.

Section 10.3 **Transfer**. Any Transfer occurs in violation of Section 8.1 of this Agreement.

Section 10.4 **Covenants**. Borrower's failure to perform, observe or comply with any of the agreements, covenants or provisions contained in this Agreement or in any of the other Loan Documents, or any Borrower Party's failure to perform observe or comply with any of the agreements, covenants or provisions contained in any of the other Loan Documents to which it is a party (in each case, other than those agreements, covenants and provisions referred to elsewhere in this Article 10), and the continuance of such failure for thirty (30) days after notice by Lender to Borrower; however, subject to any shorter period for curing any failure by Borrower or the applicable Borrower Party as specified in any of the other Loan Documents, Borrower or the applicable Borrower Party shall have an additional sixty (60) days to cure such failure if (1) such failure does not involve the failure to make payments on a monetary obligation; (2) such failure cannot reasonably be cured within thirty (30) days but, using reasonable diligence, is curable within such 60-day period; (3) Borrower or the applicable Borrower Party is diligently undertaking to cure such default, and (4) Borrower or the applicable Borrower Party has provided Lender with security reasonably satisfactory to Lender against any

interruption of payment or impairment of collateral as a result of such continuing failure. The notice and cure provisions of this Section 10.4 do not apply to the other Events of Default described in this Article 10 or to Borrower's or any Borrower Party's failure to perform, observe or comply with any of the agreements, covenants or provisions contained in Article 9 (for which no notice and cure period shall apply).

Section 10.5 **Representations and Warranties**. Any representation or warranty made in any Loan Document proves to be untrue in any material respect when made or deemed made.

Section 10.6 **Other Encumbrances**. Any default under any document or instrument, other than the Loan Documents, evidencing or creating a Lien on any Project or any part thereof.

Section 10.7 **Involuntary Bankruptcy or Other Proceeding**. Commencement of an involuntary case or other proceeding against Borrower, any Borrower Party or any other Person having an ownership or security interest in any Project (each, a "**Bankruptcy Party**") which seeks liquidation, reorganization or other relief with respect to it or its Debts or other liabilities under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeks the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any of its property, and such involuntary case or other proceeding shall remain undismissed or unstayed for a period of sixty (60) days; or an order for relief against a Bankruptcy Party shall be entered in any such case under the Federal Bankruptcy Code.

Section 10.8 **Voluntary Petitions, Etc.** Commencement by a Bankruptcy Party of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its Debts or other liabilities under any bankruptcy, insolvency or other similar law or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for it or any of its property, or consent by a Bankruptcy Party to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or the making by a Bankruptcy Party of a general assignment for the benefit of creditors, or the failure by a Bankruptcy Party, or the admission by a Bankruptcy Party in writing of its inability, to pay its debts generally as they become due, or any action by a Bankruptcy Party to authorize or effect any of the foregoing.

Section 10.9 **Joinder**. Any Joinder Party's failure to timely perform, observe or comply with any of the agreements, covenants or provisions contained in the Joinder hereto.

ARTICLE 11

REMEDIES

Section 11.1 **Remedies - Insolvency Events**. Upon the occurrence of any Event of Default described in Section 10.7 or 10.8, the obligations of Lender to advance amounts hereunder shall immediately terminate, and all amounts due under the Loan Documents immediately shall become due and payable, all without written notice and without presentment, demand, protest, notice of protest or dishonor, notice of intent to accelerate the maturity thereof,

notice of acceleration of the maturity thereof, or any other notice of default of any kind, all of which are hereby expressly waived by Borrower; however, if the Bankruptcy Party under Section 10.7 or 10.8 is other than Borrower, then all amounts due under the Loan Documents shall become immediately due and payable at Lender's election, in Lender's sole discretion.

Section 11.2 **Remedies - Other Events**. Except as set forth in Section 11.1 above, while any Event of Default exists, Lender may (1) by written notice to Borrower, declare the entire Loan to be immediately due and payable without presentment, demand, protest, notice of protest or dishonor, notice of intent to accelerate the maturity thereof, notice of acceleration of the maturity thereof, or other notice of default of any kind, all of which are hereby expressly waived by Borrower, (2) terminate the obligation, if any, of Lender to advance amounts hereunder, and (3) exercise all rights and remedies therefor under the Loan Documents and at law or in equity.

Section 11.3 **Lender's Right to Perform the Obligations**. If Borrower or any Subsidiary shall fail, refuse or neglect to make any payment or perform any act required by the Loan Documents, then while any Event of Default exists, and without notice to or demand upon Borrower or any Subsidiary and without waiving or releasing any other right, remedy or recourse Lender may have because of such Event of Default, Borrower (on its own behalf and of behalf of the Subsidiaries) agrees that Lender may (but shall not be obligated to) make such payment or perform such act for the account of Borrower or the applicable Subsidiary and at the expense of Borrower, and shall have the right to enter upon the Projects for such purpose and to take all such action thereon and with respect to the Projects as it may deem necessary or appropriate. If Lender shall elect to pay any sum due with reference to any Project, Lender may do so in reliance on any bill, statement or assessment procured from the appropriate governmental authority or other issuer thereof without inquiring into the accuracy or validity thereof. Similarly, in making any payments to protect the security intended to be created by the Loan Documents, Lender shall not be bound to inquire into the validity of any apparent or threatened adverse title, lien, encumbrance, claim or charge before making an advance for the purpose of preventing or removing the same. Borrower shall indemnify, defend and hold Lender harmless from and against any and all losses, liabilities, claims, damages, expenses, obligations, penalties, actions, judgments, suits, costs or disbursements of any kind or nature whatsoever, including reasonable attorneys' fees, incurred or accruing by reason of any acts performed by Lender pursuant to the provisions of this Section 11.3, including those arising from the joint, concurrent, or comparative negligence of Lender, except as a result of Lender's gross negligence or willful misconduct. All sums paid by Lender pursuant to this Section 11.3 and all other sums expended by Lender to which it shall be entitled to be indemnified, together with interest thereon at the Default Rate from the date of such payment or expenditure until paid, shall constitute additions to the Loan, shall be secured by the Loan Documents and shall be paid by Borrower to Lender upon demand.

ARTICLE 12

MISCELLANEOUS

Section 12.1 **Notices**. Any notice required or permitted to be given under this Agreement shall be in writing and either shall be mailed by certified mail, postage prepaid, return receipt requested, or sent by overnight air courier service, or personally delivered to a representative of the receiving party, or sent by telecopy or electronic mail (provided that for both telecopy and electronic mail delivery, an identical notice is also sent simultaneously by mail, overnight courier or personal delivery as otherwise provided in this Section 12.1). All such notices shall be mailed, sent or delivered, addressed to the party for whom it is intended at its address set forth below.

If to Borrower: ESP Seven Subsidiary LLC
2795 East Cottonwood Parkway, Suite 400
Salt Lake City, Utah 84121
Attention: David L. Rasmussen, General Counsel
Telecopy: (801) 365-4947
E-Mail: drasmussen@extraspace.com

If to Lender: General Electric Capital Corporation
c/o GE Real Estate
16479 Dallas Parkway, Suite 500
Addison, Texas 75001
Attention: Asset Manager/Extra Space Credit Line
Telecopy: (972) 447-2520
E-Mail: scot.florsheim@gecapital.com

Any notice so addressed and sent by United States mail or overnight courier shall be deemed to be given on the earliest of (1) when actually delivered, (2) on the first Business Day after deposit with an overnight air courier service, or (3) on the third Business Day after deposit in the United States mail, postage prepaid, in each case to the address of the intended addressee (except as otherwise provided in the Mortgages). Any notice so delivered in person shall be deemed to be given when receipted for by, or actually received by Lender or Borrower, as the case may be. If given by telecopy, a notice shall be deemed given and received when the telecopy is transmitted to the party's telecopy number specified above and confirmation of complete receipt is received by the transmitting party during normal business hours or on the next Business Day if not confirmed during normal business hours, and an identical notice is also sent simultaneously by mail, overnight courier, or personal delivery as otherwise provided in this Section 12.1. If given by electronic mail, a notice shall be deemed given and received when the electronic mail is transmitted to the recipient's electronic mail address specified above and electronic confirmation of receipt (either by reply from the recipient or by automated response to a request for delivery receipt) is received by the sending party during normal business hours or on the next Business Day if not confirmed during normal business hours, and an identical notice is also sent simultaneously by mail, overnight courier or personal delivery as otherwise provided in this Section 12.1. Except for telecopy and electronic mail notices sent as expressly described above, no notice hereunder shall be effective if sent or delivered by electronic means. Either

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party may designate a change of address by written notice to the other by giving at least ten (10) days prior written notice of such change of address.

Section 12.2 **Amendments and Waivers; References**. No amendment or waiver of any provision of the Loan Documents shall be effective unless in writing and signed by the party against whom enforcement is sought. This Agreement and the other Loan Documents shall not be executed, entered into, altered, amended, or modified by electronic means. Without limiting the generality of the foregoing, the Borrower and Lender hereby agree that the transactions contemplated by this Agreement shall not be conducted by electronic means, except as specifically set forth in Section 12.1 regarding notices. Any reference to a Loan Document, whether in this Agreement or in any other Loan Document, shall be deemed to be a reference to such Loan Document as it may hereafter from time to time be amended, modified, supplemented and restated in accordance with the terms hereof.

Section 12.3 **Limitation on Interest**. It is the intention of the parties hereto to conform strictly to applicable usury laws. Accordingly, all agreements between Borrower and Lender with respect to the Loan are hereby expressly limited so that in no event, whether by reason of acceleration of maturity or otherwise, shall the amount paid or agreed to be paid to Lender or charged by Lender for the use, forbearance or detention of the money to be lent hereunder or otherwise, exceed the maximum amount allowed by law. If the Loan would be usurious under applicable law, then, notwithstanding anything to the contrary in the Loan Documents: (1) the aggregate of all consideration which constitutes interest under applicable law that is contracted for, taken, reserved, charged or received under the Loan Documents shall under no circumstances exceed the maximum amount of interest allowed by applicable law, and any excess shall be credited on the Note by the holder thereof (or, if the Note has been paid in full, refunded to Borrower); and (2) if maturity is accelerated by reason of an election by Lender, or in the event of any prepayment, then any consideration which constitutes interest may never include more than the maximum amount allowed by applicable law. In such case, excess interest, if any, provided for in the Loan Documents or otherwise, to the extent permitted by applicable law, shall be amortized, prorated, allocated and spread from the date of advance until payment in full so that the actual rate of interest is uniform through the term hereof. If such amortization, proration, allocation and spreading is not permitted under applicable law, then such excess interest shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited on the Note (or, if the Note has been paid in full, refunded to Borrower). The terms and provisions of this Section 12.3 shall control and supersede every other provision of the Loan Documents. If at any time the laws of the United States of America permit Lender to contract for, take, reserve, charge or receive a higher rate of interest than is allowed by applicable state law (whether such federal laws directly so provide or refer to the law of any state), then such federal laws shall to such extent govern as to the rate of interest which Lender may contract for, take, reserve, charge or receive under the Loan Documents.

Section 12.4 **Invalid Provisions**. If any provision of any Loan Document is held to be illegal, invalid or unenforceable, such provision shall be fully severable; the Loan Documents shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part thereof; the remaining provisions thereof shall remain in full effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance

therefrom; and in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as a part of such Loan Document a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible to be legal, valid and enforceable.

Section 12.5 **Reimbursement of Expenses**. Except as expressly provided in Section 5.2(3) and Section 7.5, Borrower shall pay all costs and expenses incurred by Lender in connection with the negotiation, documentation, closing, disbursement and administration of the Loan (excluding the costs of any sale of an interest in the Loan under Section 12.11), including fees and expenses of Lender's attorneys and Lender's environmental, engineering, accounting and other consultants; fees, charges and taxes for the recording or filing of Loan Documents; financial investigation, audit and inspection fees and costs; settlement of condemnation and casualty awards; title search costs, premiums for title insurance and endorsements thereto; and fees and costs for UCC and litigation searches and background checks. Borrower shall, upon request, promptly reimburse Lender for all amounts expended, advanced or incurred by Lender to collect the Note, or to enforce the rights of Lender under this Agreement or any other Loan Document, or to defend or assert the rights and claims of Lender under the Loan Documents or with respect to the Projects (by litigation or other proceedings), which amounts will include all court costs, attorneys' fees and expenses, fees of auditors and accountants, and investigation expenses as may be incurred by Lender in connection with any such matters (whether or not litigation is instituted), together with interest at the Default Rate on each such amount from the date of disbursement until the date of reimbursement to Lender, all of which shall constitute part of the Loan and shall be secured by the Loan Documents.

Section 12.6 **Approvals; Third Parties; Conditions**. All rights retained or exercised by Lender to review or approve leases, contracts, plans, studies and other matters, including Borrower's and any other Person's compliance with the provisions of Article 9 and compliance with laws applicable to Borrower, the Projects or any other Person, are solely to facilitate Lender's credit underwriting, and shall not be deemed or construed as a determination that Lender has passed on the adequacy thereof for any other purpose and may not be relied upon by Borrower or any other Person. This Agreement is for the sole and exclusive use of Lender and Borrower and may not be enforced, nor relied upon, by any Person other than Lender and Borrower. All conditions of the obligations of Lender hereunder, including the obligation to make advances, are imposed solely and exclusively for the benefit of Lender, its successors and assigns, and no other Person shall have standing to require satisfaction of such conditions or be entitled to assume that Lender will refuse to make advances in the absence of strict compliance with any or all of such conditions, and no other Person shall, under any circumstances, be deemed to be a beneficiary of such conditions, any and all of which may be freely waived in whole or in part by Lender at any time in Lender's sole discretion.

Section 12.7 **Lender Not in Control; No Partnership**. None of the covenants or other provisions contained in this Agreement shall, or shall be deemed to, give Lender the right or power to exercise control over the affairs or management of Borrower, the power of Lender being limited to the rights to exercise the remedies referred to in the Loan Documents. The relationship between Borrower and Lender is, and at all times shall remain, solely that of debtor and creditor. No covenant or provision of the Loan Documents is intended, nor shall it be deemed or construed, to create a partnership, joint venture, agency or common interest in profits or income between Lender and Borrower (or any Subsidiary) or to create an equity interest in the

Projects in Lender. Lender neither undertakes nor assumes any responsibility or duty to Borrower, to the Subsidiaries or to any other Person with respect to the Projects or the Loan, except as expressly provided in the Loan Documents; and notwithstanding any other provision of the Loan Documents: (1) Lender is not, and shall not be construed as, a partner, joint venturer, alter ego, manager, controlling person or other business associate or participant of any kind of Borrower or its stockholders, members, partners or Subsidiaries and Lender does not intend to ever assume such status; (2) Lender shall in no event be liable for any Debts, expenses or losses incurred or sustained by Borrower or any Subsidiary; and (3) Lender shall not be deemed responsible for or a participant in any acts, omissions or decisions of Borrower or its stockholders, members, partners or Subsidiaries. Lender and Borrower disclaim any intention to create any partnership, joint venture, agency or common interest in profits or income between Lender and Borrower or the Subsidiaries, or to create any equity in the Projects in Lender, or any sharing of liabilities, losses, costs or expenses.

Section 12.8 **Time of the Essence**. Time is of the essence with respect to this Agreement.

Section 12.9 **Successors and Assigns**. This Agreement shall be binding upon and inure to the benefit of Lender and Borrower and the respective successors and assigns of Lender and Borrower, provided that neither Borrower nor any other Borrower Party shall, without the prior written consent of Lender, assign any rights, duties or obligations hereunder.

Section 12.10 **Renewal, Extension or Rearrangement**. All provisions of the Loan Documents shall apply with equal effect to each and all promissory notes and amendments thereof hereinafter executed which in whole or in part represent a renewal, extension, increase or rearrangement of the Loan. For portfolio management purposes, at any time during the term of the Loan Lender may elect to divide the Loan into two or more separate loans evidenced by separate promissory notes so long as the payment and other obligations of Borrower are not effectively increased or otherwise modified. Borrower agrees to cooperate, and to cause the Subsidiaries to cooperate, with Lender and to execute such documents as Lender reasonably may request to effect such division of the Loan.

Section 12.11 **Sale of Loan, Participation**. Lender, at any time and without the consent of Borrower or any Borrower Party, may grant participations in or sell, transfer, assign and convey all or any portion of its right, title and interest in and to the Loan, this Agreement and the other Loan Documents and any collateral given to secure the Loan. Lender shall have the right (but shall be under no obligation) to make available to any party for the purpose of granting participations in or selling, transferring, assigning or conveying all or any part of the Loan (including any governmental agency or authority and any prospective bidder at any foreclosure sale of any Project) any and all information which Lender may have with respect to the Projects, Borrower and any Borrower Party, whether provided by Borrower, any Borrower Party or any third party, or obtained as a result of any environmental assessments. Borrower and each Borrower Party agrees that Lender shall have no liability whatsoever as a result of delivering any such information to any third party, and Borrower and the other Borrower Parties, on behalf of themselves and their successors and assigns, hereby release and discharge Leader from any and all liabilities, claims, damages, or causes of action arising out of, connected with or incidental to the delivery of any such information to any third party.

Section 12.12 **Waivers**. No course of dealing on the part of Lender, its officers, employees, consultants or agents, nor any failure or delay by Lender with respect to exercising any right, power or privilege of Lender under any of the Loan Documents, shall operate as a waiver thereof.

Section 12.13 **Cumulative Rights**. Rights and remedies of Lender under the Loan Documents shall be cumulative, and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

Section 12.14 **Singular and Plural**. Words used in this Agreement and the other Loan Documents in the singular, where the context so permits, shall be deemed to include the plural and vice versa. The definitions of words in the singular in this Agreement and the other Loan Documents shall apply to such words when used in the plural where the context so permits and vice versa.

Section 12.15 **Phrases**. When used in this Agreement and the other Loan Documents, the phrase “including” shall mean “including, but not limited to,” the phrase “satisfactory to Lender” shall mean “in form and substance satisfactory to Lender in all respects,” the phrase “with Lender’s consent” or “with Lender’s approval” shall mean such consent or approval at Lender’s sole discretion, and the phrase “acceptable to Lender” shall mean “acceptable to Lender at Lender’s sole discretion.”

Section 12.16 **Exhibits and Schedules**. The exhibits and schedules attached to this Agreement are incorporated herein and shall be considered a part of this Agreement for the purposes stated herein.

Section 12.17 **Titles of Articles, Sections and Subsections**. All titles or headings to articles, sections, subsections or other divisions of this Agreement and the other Loan Documents or the exhibits hereto and thereto are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such articles, sections, subsections or other divisions, such other content being controlling as to the agreement between the parties hereto.

Section 12.18 **Promotional Material**. Borrower authorizes Lender to issue press releases, advertisements and other promotional materials in connection with Lender’s own promotional and marketing activities, and describing the Loan in general terms or in detail and Lender’s participation in the Loan, provided that all references to Borrower contained in any such press releases, advertisements or promotional materials shall be approved in writing by Borrower in advance of issuance. All references to Lender contained in any press release, advertisement or promotional material issued by Borrower shall be approved in writing by Lender in advance of issuance; provided, however, Lender shall not have any approval rights over any disclosures to, or filings with, the Securities and Exchange Commission or New York Stock Exchange (or similar public notices) made by REIT.

Section 12.19 **Survival**. All of the representations, warranties, covenants, and indemnities hereunder, and under the indemnification provisions of the other Loan Documents, shall survive the repayment in full of the Loan and the release of the liens evidencing or securing

the Loan, and shall survive the transfer (by sale, foreclosure, conveyance in lieu of foreclosure or otherwise) of any or all right, title and interest in and to the Projects to any party, whether or not an Affiliate of Borrower.

Section 12.20 **WAIVER OF JURY TRIAL. TO THE MAXIMUM EXTENT PERMITTED BY LAW, BORROWER AND LENDER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN) OR ACTION OF EITHER PARTY OR ANY EXERCISE BY ANY PARTY OF THEIR RESPECTIVE RIGHTS UNDER THE LOAN DOCUMENTS OR IN ANY WAY RELATING TO THE LOAN OR THE PROJECTS (INCLUDING, WITHOUT LIMITATION, ANY ACTION TO RESCIND OR CANCEL THIS AGREEMENT, AND ANY CLAIM OR DEFENSE ASSERTING THAT THIS AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS WAIVER IS A MATERIAL INDUCEMENT FOR LENDER TO ENTER THIS AGREEMENT.**

Section 12.21 **Punitive or Consequential Damages; Waiver**. Neither Lender nor Borrower shall be responsible or liable to the other or to any other Person for any punitive, exemplary or consequential damages which may be alleged as a result of the Loan or the transaction contemplated hereby, including any breach or other default by any party hereto. Borrower represents and warrants to Lender that as of the Closing Date neither Borrower nor any Borrower Party has any claims against Lender in connection with the Loan.

Section 12.22 **Governing Law**. Except as otherwise expressly provided in any of the other Loan Documents, in all respects, including all matters of construction, validity and performance, this Agreement, the other Loan Documents, and the obligations arising hereunder and thereunder, are being executed and delivered, and are intended to be performed, in the state of Utah and the laws of the state of Utah and of the United States of America shall govern the rights and duties of the parties hereto and the validity, construction, enforcement and interpretation of the Loan Documents, without regard to the principals thereof regarding conflict of laws. Lender and Borrower agree to submit to personal jurisdiction and to waive any objection as to venue in the County of Salt Lake, State of Utah. Nothing herein shall preclude Lender or Borrower from bringing suit or taking other legal action in any other jurisdiction.

Section 12.23 **Entire Agreement**. This Agreement and the other Loan Documents embody the entire agreement and understanding between Lender and Borrower and supersede all prior agreements and understandings between such parties relating to the subject matter hereof and thereof, including any commitment letter (if any) issued by Lender with respect to the Loan. Accordingly, the Loan Documents may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties. If any conflict or inconsistency exists between this Agreement and any of the other Loan Documents, the terms of this Agreement shall control.

Section 12.24 **Counterparts**. This Agreement may be executed in multiple counterparts, each of which shall constitute an original, but all of which shall constitute one document.

Section 12.25 **Agreements Regarding Borrower and Subsidiaries**.

(1) **Performance of Obligations**. Borrower and Lender acknowledge that (a) Borrower and ESP 7 have formed the Subsidiaries for the purposes of owning and operating certain Projects, (b) the Loan Documents contain many provisions relating to the Subsidiaries, the ownership and operation of certain Projects and the determination of Underwritten NOI, Net Cash Flow and net sales proceeds resulting from the operation and/or sale of such Projects, and (c) Borrower and ESP 7 collectively hold directly all of the beneficial ownership interests in the Subsidiaries and have total control of the Subsidiaries in all respects. Therefore, for purposes of this Agreement and each of the other Loan Documents, whether or not expressly stated herein or therein, whenever this Agreement or any of the other Loan Documents imposes any obligation on Borrower with respect to the Projects owned by the Subsidiaries (other than the Non-Borrower Subsidiaries) that would typically be an obligation performed by the direct owner of the Projects: (i) Borrower shall be obligated to perform such obligation itself, or to cause the applicable Subsidiary to perform such obligation on behalf of Borrower; and (ii) Borrower’s failure to perform any such obligation itself, or to cause the applicable Subsidiary to perform such obligation on behalf of Borrower, shall be deemed a default by Borrower hereunder. In addition, for purposes of all representations and warranties of Borrower under the Loan Documents, all knowledge of the Subsidiaries shall be attributed to Borrower. Even though particular covenants, obligations or representations and warranties set forth in this Agreement or any of the other Loan Documents may refer to Borrower only, all such references shall deemed subject to the foregoing rules of construction and any default in the performance of any such covenant or obligation, and any breach of any such representation and warranty, shall be deemed a default of Borrower hereunder.

(2) **Loan Advances and Payments By Lender**. All advances of Loan proceeds may be made by Lender (at Lender’s option) to Borrower or directly to one or more Subsidiaries, and all such advances to (i) Subsidiaries other than Non-Borrower Subsidiaries shall be deemed to have been made by Lender to Borrower and thereupon contributed by Borrower to the capital of such Subsidiaries and (ii) Non-Borrower Subsidiaries shall be deemed to have been made by Lender to Borrower and thereupon distributed by Borrower to ESP 7, and thereupon contributed by ESP 7 to the capital of such Subsidiaries. Further, any reserve funds or other amounts that are disbursed by Lender to a Subsidiary under this Agreement or any of the other Loan Documents shall be deemed to have been disbursed to Borrower. Lender’s advance of any Loan funds or disbursement of any reserve funds or other amounts to or for the benefit or account of any Subsidiary shall constitute a complete discharge of Lender’s obligations to Borrower under the Loan Documents with respect to such sums; and the Subsidiaries and Borrower shall look solely to each other for the proper distribution of any such sums among themselves. Lender shall have no responsibility or liability whatsoever for the proper distribution of any such sums between Borrower and the Subsidiaries.

(3) **Communications**. All notices, instructions and other communications of any nature (a) that are given to Lender by any Subsidiary shall be deemed to have been given by Borrower (and Borrower hereby appoints each Subsidiary to act as its agent for such purpose), and (b) that are given to a Subsidiary by Lender shall be deemed to have been given to Borrower.

ARTICLE 13

LIMITATIONS ON LIABILITY

Section 13.1 **Limitation on Liability.**

(1) Except as provided below in this Section 13.1, Borrower shall not be personally liable for amounts due under the Loan Documents.

(2) Borrower shall be personally liable to Lender for any deficiency, loss or damage suffered by Lender because of: (a) Borrower’s commission of a criminal act, (b) the failure by Borrower or any Borrower Party to apply any funds derived from any Project, including Operating Revenues, security deposits, insurance proceeds and condemnation awards, as required by the Loan Documents; (c) the fraud or misrepresentation by Borrower or any Borrower Party made in or in connection with the Loan Documents or the Loan; (d) Borrower’s, ESP 7’s or any Subsidiary’s collection of rents more than one month in advance (except to the extent permitted in Section 6.3) or entering into, modifying or canceling leases, or receipt of monies by Borrower or any Borrower Party in connection with the modification or cancellation of any leases, in violation of this Agreement or any of the other Loan Documents; (e) Borrower’s, ESP 7’s or any Subsidiary’s interference with Lender’s exercise of rights under the Assignment of Rents and Leases; (f) Borrower’s, ESP 7’s or any Subsidiary’s failure to turn over to Lender all tenant security deposits upon Lender’s demand following an Event of Default; (g) Borrower’s failure to timely renew any letter of credit issued in connection with the Loan; (h) Borrower’s, ESP 7’s or any Subsidiary’s failure to maintain insurance as required by this Agreement or to pay any taxes or assessments affecting any Project; (i) damage or destruction to any Project caused by the negligent or intentional acts or omissions of Borrower, ESP 7 any Subsidiary, its agents, employees, or contractors; (j) Borrower’s, ESP 7’s or any Subsidiary’s failure to perform its obligations with respect to environmental matters under Article 5; (k) Borrower’s failure to pay for any loss, liability or expense incurred by Lender arising out of any claim or allegation made by Borrower, ESP 7 or

any Subsidiary, their successors or assigns, or any creditor of Borrower, ESP 7 or any Subsidiary, that this Agreement or the transactions contemplated by the Loan Documents establish a joint venture, partnership or other similar arrangement between Borrower, ESP 7 and/or any Subsidiary and Lender; (1) any brokerage commission or finder's fees claimed in connection with the transactions contemplated by the Loan Documents; or (m) uninsured damage to any Project resulting from acts of terrorism. Borrower also shall be personally liable to Lender for any and all attorneys' fees and expenses and court costs incurred by Lender in enforcing this Section 13.1(2) or otherwise incurred by Lender in connection with any of the foregoing

matters, regardless of whether such matters are legal or equitable in nature or arise under tort or contract law.

(3) Notwithstanding anything to the contrary contained in the Loan Documents, the limitation on Borrower's liability contained in Section 13.1(1) SHALL BECOME NULL AND VOID and shall be of no further force and effect:

(a) if any Transfer in violation of the Loan Documents occurs;

(b) if Borrower, ESP 7, any Subsidiary or any of their respective members, partners or shareholders files a petition under the United States Bankruptcy Code or similar state insolvency laws;

(c) if Borrower, ESP 7 or any Subsidiary becomes the subject of an involuntary proceeding under the United States Bankruptcy Code or similar state insolvency laws, and either (i) Borrower, ESP 7, any Subsidiary or any Affiliate of Borrower, ESP 7 or any Subsidiary conspired or cooperated with one or more creditors of Borrower, ESP 7 or the applicable Subsidiary to commence such involuntary proceeding, or (ii) Borrower, ESP 7 or the applicable Subsidiary fails to use commercially reasonable efforts to obtain a dismissal of such involuntary proceeding; or

(d) without limiting paragraphs (b) and (c) above, upon the avoidance or any attempted avoidance or claim of avoidability by any Subsidiary or any Affiliate of any Subsidiary (whether directly by such Subsidiary or such Affiliate, as a debtor or as a debtor in possession), or by a trustee in bankruptcy, an assignee for the benefit of creditors or a receiver for any of them, whether brought directly by or on behalf of any Subsidiary's creditors, equity holders or estate in a state or federal bankruptcy or insolvency proceeding or brought by any debtor, debtor in possession or trustee in bankruptcy, assignee for the benefit of creditors or receiver for any Subsidiary or any Affiliate of any Subsidiary or brought on behalf of any Subsidiary or any Affiliate of any Subsidiary as a creditor of any other Affiliate of any Subsidiary, or by any other Person, of (i) any transfer to (or for the benefit of) Lender of an interest of any Subsidiary in property (including the payment of money to Lender by any Subsidiary and the creation in favor of Lender of a lien or any other encumbrance on property of any Subsidiary pursuant to its Mortgage) or (ii) any obligation incurred by any Subsidiary under its Mortgage, which avoidance or attempted avoidance is brought pursuant to any state or federal fraudulent transfer, fraudulent conveyance, debtor-creditor, or partnership or corporate powers/authority statutory or common law, including Sections 544, 547 or 548 of Title 11 of the United States Code (or such successor statutory provision as may provide for a similar remedy) and the Uniform Fraudulent Transfer Act and the Uniform Fraudulent Conveyance Act (as adopted by any applicable state).

(4) The limitation on Borrower's personal liability in Section 13.1(1) shall not modify, increase, diminish or discharge the personal liability of any Joinder Party, except as otherwise expressly provided in the Joinder.

(5) Nothing in this Section 13.1 shall be deemed to be a waiver of any right which Lender may have under Sections 506(a), 506(b), 1111(b) or any other provision of the United States Bankruptcy Code, as such sections may be amended, or corresponding or superseding sections of the Bankruptcy Amendments and Federal Judgeship Act of 1984, to file a claim for the full amount due to Lender under the Loan Documents or to require that all Collateral shall continue to secure the amounts due under the Loan Documents.

Section 13.2 **Limitation on Liability of Lender's Officers, Employees, Etc.** Any obligation or liability whatsoever of Lender which may arise at any time under this Agreement or any other Loan Document shall be satisfied, if at all, out of the Lender's assets only. No such obligation or liability shall be personally binding upon, nor shall resort for the enforcement thereof be had to, the property of any of Lender's shareholders, directors, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort or otherwise.

[Remainder of page intentionally left blank.]

EXECUTED as of the date first written above.

LENDER:

GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation

By: /s/ ERIC VESSELE
Name: ERIC VESSELE
Title: RISK MANAGER

BORROWER:

ESP SEVEN SUBSIDIARY LLC, a Delaware limited liability company

By: /s/ Kent W Christensen
Name: Kent W Christensen
Title: Manager

Exhibit 10.39

SUBSCRIPTION AGREEMENT
(Membership Interests in Extra Space Development, LLC)

THIS SUBSCRIPTION AGREEMENT (“Agreement”) is made this 31 day of December, 2007, by and among Extra Space Development, LLC (“Company”), and Extra Space Storage LLC (“Subscriber”), (the Company and the Subscriber are sometimes collectively referred to as “Parties.”)

WITNESSETH:

WHEREAS, the Company has entered into six agreements with the Subscriber for the purchase and sale of limited liability company interests, as identified in the attached Exhibit A (“Six Sale Agreements”); and

WHEREAS, Subscriber desires to acquire certain membership interests in the Company for the consideration set forth herein; and

WHEREAS, the Parties desire to enter into this Agreement to set forth with specificity and detail the terms and conditions upon which the foregoing subscription and acquisition of membership interests shall be accomplished.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and intending to be legally bound, the Parties hereto agree as follows:

1. Sale of Membership Interest. The Subscriber agrees to contribute, and the Company agrees to accept from Subscriber, the sum of $356,718.90 as a capital contribution to Company in exchange for a membership interest in the Company as described below.

2. Admission/ Operating Agreement. Subscriber hereby consents to the Amended and Restated Operating Agreement of the Company dated January 1, 2004 (“Operating Agreement”) and agrees to be bound thereby, subject to the further Second Amended and Restated Operating Agreement attached hereto as Exhibit B, which shall be effective as of the Effective Date of this Agreement.

3. Subscriber Review of Disclosure Materials. Subscriber acknowledges that it has received no representations or warranties from the Company, the Manager, Kenneth M. Woolley or by any person acting on behalf of the Company, with respect to the proposed business of the Company, or any other aspects or consequences of a purchase of membership interests, and that Subscriber has not relied upon any information concerning the Company, written or oral. Subscriber represents and warrants to Company and Manager that it has had full access to Company records and has made such inquiry regarding the Company and its business, as Subscriber deems necessary.

4. Subscriber Representations and Warranties. The Subscriber further represents and warrants to the Company as follows:

(a) Economic Risk. The Subscriber is aware that the membership interests are speculative investments involving a high degree of risk.

(b) Counsel. Subscriber, its counsel, its advisors, and such other persons, with whom it has found it necessary to consult, have sufficient knowledge and experience in business and financial matters

to evaluate the Company, and the merits and risks of the investment, and to make an informed investment decision with respect thereto.

(c) Examination. The Company has made available to the Subscriber, its counsel and advisors, prior to the date hereof, the opportunity to ask questions of, and to receive answers from, the Company and its representatives, concerning the terms and conditions of the investment, and access to obtain any information, documents, financial statements, records and books (i) relative to the Company, the business, and an investment in the Company, and (ii) necessary to verify the accuracy of any information furnished to the Subscriber.

(d) Transfer Restrictions. The membership interests are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Operating Agreement, and applicable state and federal securities laws, pursuant to registration or an exemption therefrom. Subscriber should be aware that it might be required to bear the financial risks of this investment for an indefinite period.

(e) Correctness, Remaking of Warranties. The foregoing representations and warranties are true and correct as of the date hereof and each such representation and warranty shall survive the purchase of membership interests.

5. Company Representations and Warranties: AS IS, WHERE IS. The Company represents and warrants to the Subscriber as follows:

(a) Company is a Utah limited liability company, and duly formed, existing and in good standing in the State of Utah

(b) Company has adopted a Plan of Dissolution in form attached as Exhibit C, which includes a plan for a series of redemptions of the membership interests of all of the existing members of the Company other than the Subscriber.

(c) The Company, and its members and managers, make no representations or warranties to the Subscriber other than as specifically set forth herein. Otherwise, and in all respects, the membership interest of the Company hereby subscribed for, and the organizational documents of the Company, and the assets, liabilities, and business of the Company are hereby approved by and conveyed to the Subscriber “AS IS, WHERE IS” and without warranty of any kind.

6. Miscellaneous.

(a) Utah Law. This Subscription Agreement shall be construed in accordance with and be governed by the laws of the State of Utah. The parties hereto hereby agree to submit to the jurisdiction of the state of federal courts in Utah to resolve all claims or disputes arising under this Subscription

Agreement.

(b) Successors and Assigns. This Subscription Agreement shall be binding upon and inure to the benefit of the successors, heirs, assigns and personal representatives of all parties; provided, however, that Subscriber may not assign its rights or delegate his duties under this Subscription Agreement.

(c) Effective Date. This Subscription Agreement shall become Effective upon execution by all parties named below.

(d) Entire Agreement. It is expressly understood that this Subscription Agreement and the documents referred to herein constitute the entire agreement of the parties hereto with respect to the subject matter hereof. All prior understandings or commitments of any kind, oral or written, pertaining thereto are hereby superseded and canceled.

(end of text)

IN WITNESS WHEREOF, the Parties to this Agreement have duly executed it on the date and year first above written.

COMPANY:

Extra Space Development, LLC

By: /s/ Kenneth M. Woolley
Its: Manager

SUBSCRIBER:

Extra Space Storage LLC

By: /s/ Kent W. Christensen
Its: Manager

CONSENT TO ADMISSION OF MEMBER

Pursuant to Article 3.06 of the Operating Agreement, the undersigned, representing greater than 50% of the Membership Interests in the Company waive any rights of first refusal set forth in the Operating Agreement and consent to the transaction described above and the admission of Extra Space Storage LLC as a Member of the Company.

MEMBERS:

/s/ Kenneth M. Woolley
Kenneth M. Woolley, Member
Percentage Interest: 32.630%

KRISPEN FAMILY HOLDINGS, L.C., Member

By: /s/ Spencer F. Kirk
Spencer F. Kirk
Its: Manager
Percentage Interest: 20.195%

EXHIBIT A

SIX SALE AGREEMENTS

1. Agreement for Purchase and Sale of Limited Liability Company Interest (Extra Space of Culver City LLC– ESS# 1160)

2. Agreement for Purchase and Sale of Limited Liability Company Interest (Extra Space of Middletown LLC– ESS# 1192)

3. Agreement for Purchase and Sale of Limited Liability Company Interest (Extra Space of Jamaica Plain– ESS# 1098)

4. Agreement for Purchase and Sale of Limited Liability Company Interest (Extra Space of Elk Grove LLC– ESS# 1166)

5. Agreement for Purchase and Sale of Limited Liability Company Interest (Extra Space of Extra Space West Two LLC)

6. Agreement for Purchase and Sale of Limited Liability Company Interest (Storage Associates Holdco)

LC# 029047

RECEIVED

SEP 22 1998

ARTICLES OF ORGANIZATION

OF

EXTRA SPACE DEVELOPMENT, LLC

The undersigned hereby form a limited liability company (the “Company”) — pursuant to the Utah Limited Liability Company Act and adopt as the Articles of Organization of such limited liability company the following:

1. Name of the Company:

The name of the Company shall be “EXTRA SPACE DEVELOPMENT, LLC”

2. Period of its Duration:

The duration of the Company shall be forty (40) years from the date of filing of these Articles of Organization with the Division of Corporations & Commercial Code of the State of Utah.

3. Purposes of the Company.

The purposes for which the Company is organized are to develop, finance, lease, construct, own, operate, maintain and sell real and personal property of all types, and other related business within the State of Utah. In addition, the Company shall have unlimited power to engage in and do any lawful act concerning any or all lawful businesses for which limited liability companies may be organized according to the laws of the State of Utah, including all powers and purposes now and hereafter permitted by law to a limited liability company.

4. Principal Place of Business and Registered Agent.

The address of the principal place of business of the Company is as follows:

Extra Space Development, LLC
488 East Winchester, Suite 150
Salt Lake City, UT 84107

The name and address of the agent for service of process is:

Kenneth M.Woolley
488 East Winchester, Suite 150
Salt Lake City, UT 84107

However, if the agent appointed therein cannot be found or served with the exercise of reasonable diligence, or if said agent’s authority has been revoked, then the Utah Division of Corporations & Commercial Code is appointed as the agent of the company for service of process.

5. Management.

The Company is to be managed by a manager. The name and address of the manager who is to serve until its successors are elected and qualify is:

Kenneth M. Woolley
488 East Winchester, Suite 150
Salt Lake City, UT 84107

6. Operations.

The Company shall be governed by a written Operating Agreement, the terms of which shall supplement the provisions of Utah law.

DATED: September 17, 1998.

/s/ KENNETH M. WOOLLEY
KENNETH M. WOOLLEY, Manager

ACCEPTANCE BY REGISTERED AGENT:

/s/ Kenneth M. Woolley

Kenneth M. Woolley

LL 029047
Nov 29 1999

ARTICLES OF AMENDMENT
TO THE
ARTICLES OF ORGANIZATION
OF
EXTRA SPACE DEVELOPMENT, LLC

THE UNDERSIGNED, pursuant to the Utah Limited Liability Company Act, hereby adopts these Articles of Amendment to the Articles of Organization for Extra Space Development, LLC (the “Company”), and certifies that:

FIRST: The name of the Company is Extra Space Development, LLC

SECOND: The date of registration of the Company with the Utah Division of Corporations and Commercial Code was September 22, 1998.

THIRD: The Articles of Organization are hereby amended by replacing the initial Period of Duration in Article 2 with the following new Period of Duration:

> The duration of the Company shall be sixty (60) years from the date of filing of the Articles of Organization with the Division of Corporations and Commercial Code of the State of Utah.

FOURTH: Except as amended by this Certificate, the Articles of Organization shall remain unchanged.

IN WITNESS WHEREOF, this Certificate of Amendment was executed on the date given below by the undersigned member/manager of the Company, who is duly authorized to execute and file this Certificate of Amendment and to affirm, under penalties of perjury, that the facts stated in this Certificate of Amendment are true.

DATED this 16th day of November, 1999.

/s/ Kenneth M.Woolley

Kenneth M.Woolley
Member/Manager

State of California

SECRETARY OF STATE

CERTIFICATE OF GOOD STANDING
FOREIGN LIMITED LIABILITY COMPANY

I, KEVIN SHELLEY, Secretary of State of the State of California, hereby certify:

That on the 18th day of November, 1998, EXTRA SPACE DEVELOPMENT, LLC, complied with the requirements of California law in effect on that date for the purpose of registering to transact intrastate business in the State of California; and further purports to be a limited liability company organized and existing under the laws of Utah as EXTRA SPACE DEVELOPMENT, LLC, and;

That the above limited liability company is entitled to transact intrastate business in the State of California as of the date of this certificate subject, however, to any licensing requirements otherwise imposed by the laws of this state; and

That no information is available in this office on the financial condition, business activity or practices of this limited liability company.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of April 8, 2004.

/s/ KEVIN SHELLEY
KEVIN SHELLEY
Secretary of State

AMENDED AND RESTATED OPERATING AGREEMENT
FOR
EXTRA SPACE DEVELOPMENT, LLC

THIS AMENDED AND RESTATED OPERATING AGREEMENT FOR EXTRA SPACE DEVELOPMENT, LLC (the “Agreement”) is made and entered effective as of the 1^{st} day of January, 2004, by, between, and among the Members and the Manager(s) of the Company, as such terms are defined below.

RECITALS

a. The Articles of Organization for Extra Space Development, LLC (hereinafter the “Articles of Organization”) were filed with the Division on September 22, 1998. Extra Space Storage LLC, a Delaware limited liability company, was the sole member of the Company.

b. Pursuant to that certain Plan of Reorganization (Extra Space Development, LLC) dated effective as of the same date as this Agreement between Extra Space Storage LLC, the Company, and the Members, the Extra Space Storage LLC has distributed all of the membership interests in the Company to the Members.

c The Members have each reviewed this Agreement, in its entirety, and desire to cause the same to be adopted as and for the operating agreement of the Company, in accordance with the Act.

AGREEMENT:

Pursuant to the Act, and all other pertinent laws of the State of Utah and its political subdivisions, and in exchange for good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the undersigned Members mutually agree and covenant as follows:

ARTICLE 1: ORGANIZATION

1.01 Adoption of Operating Agreement. The Members hereby unanimously adopt this Agreement as the Operating Agreement for the Company pursuant to the provisions of the Act.

1.02 Name. The name of the Company shall be EXTRA SPACE DEVELOPMENT, LLC

1.03 Commencement of Business. The existence of the Company commence as of the date of filing of the Company’s Articles of Organization with the Division and shall continue thereafter until terminated as provided herein. For purposes of this Section 1.03, the Articles of Organization of the Company shall be deemed filed with the Division on the date indicated by the Division as part of its stamp or seal on the original Articles of Organization which are filed with the office of the Division.

1.04 Registered Office, Registered Agent, Designated Office. The Company shall continuously maintain a registered office and registered agent in the State of Utah as required by the Act. The registered agent of the Company in the State of Utah is Kenneth M. Woolley, and the registered office of the Company in the State of Utah is 2795 E. Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121. The designated office of the Company in the State of Utah for purposes of Section 48-2c-l11 of the Act shall be 2795 E. Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121. The Company may designate or maintain any registered agent, registered office or other office in any jurisdiction whether or not required by law, and any such designation heretofore made is hereby ratified and approved. The registered office, registered agent and designated office of the Company may be changed at any time and from time to time by the Manager(s).

1.05 Purposes. The principal business purposes for which the Company is organized are to acquire, own, develop, mortgage, encumber, hypothecate, lease, sell, maintain, improve, alter, remodel, expand, manage, and otherwise operate and deal with real and personal property from time to time acquired by the Company and for any other lawful purpose for which a limited liability company may be organized under the laws of the State of Utah.

1.06 No Liability of Managers, Members, Organizers, Officers and Employees. Except as otherwise agreed by such Organizer, Member, Manager officer or employee, no Organizer, Member, Manager, officer or employee of the Company is or shall be personally liable under a judgment, decree, or order of a court, or in any other manner, for a debt, obligation, or liability of the Company or for the acts or omissions of the Company or any other Organizer, Member, Manager, officer or employee of the Company. The failure of the Company to maintain records, to hold meetings, or to observe any formalities or requirements imposed by the Act or by the Articles of Organization or this Agreement is not a ground for imposing personal liability on any Member, Manager, Officer or employee of the Company for any debt, obligation or liability of the Company.

1.07 Title to Property. All real and personal property owned by the Company shall be owned by the Company as an entity and no Member shall have any ownership interest in such property in its individual name or right, and each Member's interest in the Company shall be personal property for all purposes. Except as otherwise provided in this Agreement, the Company shall hold all of its real and personal property in the name of the Company and not in the name of any Member.

1.08 Payments of Individual Obligations. The Company's credit and assets shall be used solely for the benefit of the Company, and no asset of the Company shall be transferred or encumbered for or in payment of any individual obligation of a Member.

1.09 Independent Activities: Transactions With Affiliates.

(a) Each Member and Manager and any of their respective Affiliates shall be required to devote only such time to the affairs of the Company as such Member or Manager determines in its sole discretion may be necessary, and each Affiliate of a Member or Manager, to the extent not otherwise directed by the Member or Manager, shall be free to serve any other Person or enterprise in any capacity that it may deem appropriate in its discretion.

(b) Insofar as permitted by applicable law, any Member, Manager and their respective Affiliates may, notwithstanding this Agreement, engage in whatever activities they choose, whether the same are competitive with the Company or otherwise, without having or incurring any obligation to offer any interest in such activities to the Company or any Member, and neither this Agreement nor any activity undertaken pursuant hereto shall prevent any Member, Manager or Affiliate of any of them from engaging in such activities, or require any Member or Manager to permit the Company or any Member, Manager or Affiliate of any of them to participate in any such activities, and as a material part of the consideration for the execution of this Agreement by each Member, each Member hereby waives, relinquishes, and renounces any such right or claim of participation. This provision shall not be construed to be in derogation of any obligation which any Person may have to the Company arising out of such Person's employment by, or position as an officer of the Company, or any contract or agreement such Person may have with the Company.

(c) To the extent permitted by applicable law and except as otherwise provided in this Agreement, the Company is hereby authorized to purchase property from, sell property to, or otherwise deal with any Member or Manager, acting on its own behalf, or any Affiliate of any Member or Manager, provided that any such purchase, sale, or other transaction shall be made on terms and conditions which are no less favorable to the Company than if the sale, purchase, or other transaction had been entered into with an independent third party.

ARTICLE 2: DEFINITIONS

2.01 Definitions. The terms used in this Agreement shall have the following meanings:

(a) Act means the Utah Revised Limited Liability Company Act, Title 48, Chapter 2c, Utah Code Annotated.

(b) Adverse Act means, with respect to any Member, any of the following:

(1) A Transfer of all or any portion of such Member's interest in the Company except as expressly permitted or required by this Agreement;

(2) Transfer of all or any portion of any Person's interest in any Member except as expressly permitted or required by this Agreement;

(3) An attempt by such Member to withdraw from the Company or dissolve the Company or take any action in breach of Section 11.02 hereof;

(4) Any termination, dissolution or liquidation of a corporation, limited liability company, or partnership which is a Member, or the taking of any action by its directors, majority shareholders or general partners looking to the termination, dissolution or liquidation of such Member, unless substantially all assets of such Member are transferred, or are to be transferred, to a Wholly Owned Affiliate of such Member;

(5) The Bankruptcy of such Member or the occurrence of any other event which would permit a trustee or receiver to acquire control of the affairs or assets of such Member;

(6) A determination by the Third Judicial District Court of Salt Lake County, State of Utah, or any other court having jurisdiction over the Company and the Members, that such Member has taken an action, or has failed to take an action within the scope of his duties hereunder, that results, or can reasonably be expected to result in, such Member becoming liable to indemnify the Company for a material sum pursuant to any provision of this Agreement or that would justify a decree of dissolution of the Company under the Act; or

(7) In the case of a Member who is a natural person, his or her death or the entry of an order by a court of competent jurisdiction adjudicating him or her incompetent to manage his or her person or his or her estate.

(c) Adverse Member means any Member with respect to whom an Adverse Act pursuant to Section 2.01(b) has occurred.

(d) Affiliate means, with respect to any Person, (i) any other Person directly or indirectly controlling, controlled by or under common control with such Person, (ii) any other Person owning or controlling interests in such Person possessing the right to cast ten percent (10%) or more of the total votes entitled to be cast for the election of management of such Person or to be cast with respect to management decisions of such Person, (iii) any officer, director, manager, or general partner of such Person, or (iv) any other Person who is an Affiliate of any other Person described in clauses (i) through

(iii) of this sentence. For purposes of this definition, the term "controls," "is controlled by," or "is under common control with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise.

(e) Aggregate Buy-Sell Price has the meaning set forth in Section 10.03 hereof.

(f) Appraisers' Notice has the meaning set forth in Section 9.06 hereof.

(g) Articles of Organization means the Articles of Organization of the Company as filed with the Division.

(h) Bankruptcy means, with respect to any Person, a "Voluntary Bankruptcy" or an "Involuntary Bankruptcy." A "Voluntary Bankruptcy" means, with respect to any Person, the filing of any petition or answer by such Person seeking to adjudicate it a bankrupt or insolvent, or seeking for itself any liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of such Person or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking, consenting to, or acquiescing in the entry of an order for relief or the appointment of a receiver, trustee, custodian, or other similar official for such Person or for any substantial

part of its property; or corporate action taken by such Person to authorize any of the actions set forth above. An "Involuntary Bankruptcy" means, with respect to any Person, without the consent or acquiescence of such Person, the entering of an order for relief or approving a petition for relief or reorganization or any other petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or other similar relief under any present or future bankruptcy, insolvency or similar statute, law or regulation, or the filing of any such petition against such Person which petition shall not be dismissed within ninety (90) days, or, without the consent or acquiescence of such Person, the entering of an order appointing a trustee, custodian, receiver or liquidator of such Person or of all or any substantial part of the property of such Person which order shall not be dismissed within sixty (60) days.

(i) Business Day means any day other than a Saturday or Sunday on which banks are not required or authorized to close in the state of Utah.

(j) Capital Account means the Capital Account of each Member as described in Section 4.01 below.

(k) Capital Contributions means collectively all contributions of cash or other Property to the Company.

(l) Code means the Internal Revenue Code of 1986, as amended.

(m) Division means the Division of Corporations and Commercial Code of the Department of Commerce, State of Utah.

(n) Election Day has the meaning set forth in Section 10.02 hereof.

(o) Election Period has the meaning set forth in Section 10.02 hereof.

(p) First Appraiser has the meaning set forth in Section 10.05 hereof.

(q) Fiscal Year means (i) the period commencing on the effective date of this Agreement and ending on December 31, next following (ii) any subsequent twelve (12) month period commencing on January 1 and ending on December 31, or (iii) any portion of the period described in clause (ii) for which the Company is required to allocate Profits, Losses and other items of Company income, gain, loss or deduction pursuant to ARTICLE 4 hereof.

(r) Interest or Member's Interest means an individual Member's share of the Company capital, assets, profits, surplus or losses, and all rights of a Member of a limited liability company under the Act and all rights of a Member of the Company under this Agreement.

(s) Involuntary Bankruptcy has the meaning set forth in Section 2.01(b) hereof.

(t) Liquidating Event has the meaning set forth in Section 11.03 hereof.

(u) Manager(s) shall have the meaning set forth in Section 6.01 below.

(v) Member or Members means the persons named in ARTICLE 3 below, and such other Members as may be admitted from time to time in accordance with this Agreement, but shall not mean the husband, wife, child or parent of any Member unless such husband, wife, child or parent is expressly named herein as a Member.

(w) Net Cash From Operations means the gross cash proceeds from Company operations less the portion thereof used to pay, or establish reserves for, all Company expenses (including without limitation, operating expenses, development expenses, debt payments, capital improvements, replacements, and contingencies), all as determined by the Manager(s). Net Cash From Operations does not include Net Cash From Sales or Net Cash From Refinancings. Net Cash From Operations shall not be reduced by depreciation, amortization, cost recovery deductions, or similar allowances, but shall be increased by any reductions of reserves previously established pursuant to the first sentence of this Section 2.01(w) and Sections 2.01(x) and 2.01(y).

(x) Net Cash From Refinancings means the net cash proceeds from any initial financing and all refinancings of Property, less any portion thereof used to establish reserves, all as determined by the Manager(s).

(y) Net Cash From Sales means the net cash proceeds from all sales and other dispositions of Property, less any portion thereof used to establish reserves, all as determined by the Manager(s). Net Cash From Sales shall include all principal and interest payments with respect to any note or other obligation received by the Company in connection with the sale or other disposition of Property.

(z) Net Equity has the meaning set forth in Section 10.04 hereof.

(aa) Percentage Interest means the Percentage Interest in the Company of each Member as set forth in Section 3.01 below.

(bb) Person means any individual, partnership, limited liability company, corporation, trust, or other entity.

(cc) Profits and Losses means the net profits or losses of the Company for federal income tax purposes as determined by the accountants employed by the Company; provided, however, that in the event the profits or losses of the Company are later adjusted in any manner, as the result of an audit by the Internal Revenue Service, or otherwise, then the net profits or losses of the Company shall be adjusted to the same extent.

(dd) Property means all real and personal property acquired by the Company and any improvements thereto, and shall include both tangible and intangible property.

(ee) Purchase Notice has the meaning set forth in Section 10.02 hereof.

(ff) Regulations means the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

(gg) Second Appraiser has the meaning set forth in Section 10.05 hereof.

(hh) Third Appraiser has the meaning set forth in Section 10.05 hereof.

(ii) Transfer means, as a noun, any voluntary or involuntary transfer, sale, or other disposition and, as a verb, voluntarily or involuntarily to transfer, sell, or otherwise dispose of.

(jj) Voluntary Bankruptcy has the meaning set forth in Section 2.01(h) hereof.

(kk) Wholly Owned Affiliate of any Person shall mean (i) an Affiliate of such Person one hundred percent (100%) of the voting stock or beneficial ownership of which is owned directly by such Person, or by any Person who, directly or indirectly, owns one hundred percent (100%) of the voting stock or beneficial ownership of such Person, (ii) an Affiliate of such Person who, directly or indirectly, owns one hundred percent (100%) of the voting stock or beneficial ownership of such Person, and (iii) any Wholly Owned Affiliate of any Affiliate described in clause (i) or clause (ii) of this Section 2.01(kk).

ARTICLE 3: MEMBERS OF THE COMPANY

3.01 Members. The names, addresses and Percentage Interests of the Members of the Company are set forth on Exhibit A attached hereto and by this reference made a part hereof. The Members agree that the Members interests in the capital, Profits, Losses and other items of Company income, gain, loss or deduction, and distributions from the Company shall be in accordance with their respective Percentage Interests.

3.02 Classes of Members. There shall be one class of Members. There shall be no distinction between the rights and liabilities of Members.

3.03 Additional Capital Contributions. From time to time, upon written consent of the Members holding more than fifty percent (50%) of the Percentage Interests, each of the Members may contribute additional cash and other properties into the Company upon such terms as are approved by Members holding more than fifty percent (50%) of the Percentage Interests. Such contributions shall constitute additional Capital Contributions.

3.04 Withdrawal of Capital Contributions. Except as otherwise expressly provided in this Agreement:

(a) only after the dissolution and winding-up of the Company may any of the Capital Contributions be withdrawn;

(b) no Member shall have priority over any other Member, either as to the return of Capital Contributions or as to Profits, Losses, or distributions;

(c) no Member shall be personally liable to any other Member for the return of any part of the Members’ Capital Contributions; and

(d) Capital Contributions shall not bear interest.

3.05 Member’s Compensation. Except as otherwise approved by the Members or provided in this Agreement, no Member shall receive any interest, salary, or drawing with respect to Capital Contributions or for services rendered on behalf of the Company or otherwise in the capacity as Member. The Members agree that the Manager(s) may receive such salaries and other compensation as are approved from time to time by the Members.

3.06 Admission of New Members. Except as otherwise provided in this Section 3.06 and ARTICLE 9 hereof, relating to Transfers of Company interests, no Person shall be admitted to the Company as a Member without the consent of Members holding more than fifty percent (50%) of the aggregate Percentage interests of all Members. With the approval of Members holding more than fifty percent (50%) of the Percentage Interests, the Manager(s) may admit one or more Persons as new Members of the Company upon such terms as are approved by Members holding more than fifty percent (50%) of the Percentage Interests.

ARTICLE 4: CAPITAL ACCOUNTS; ALLOCATIONS OF PROFITS AND LOSSES

4.01 Capital Accounts. A separate Capital Account shall be maintained for each Member. Each Member's Capital Account shall be credited with each Member's share of the capital of the Company. Each Member's Capital Account shall be increased by the additional Capital Contributions made by such Member and by such Member's share of gains and profits of the Company as allocated under Section 4.01 below. Such account shall be decreased by any distributions to such Member under Sections 5.01 and, and by such Member's share of losses and deductions of the Company as allocated under Section 4.01 below. Solely for accounting purposes among the Members, a Member may have a minus or debit balance in his or her Capital Account, but any such minus or debit balance shall not represent a liability of such Member to the Company and no Member shall have any obligation to restore a negative balance in such Member's Capital Account.

4.02 Allocation of Profits and Losses. The Profits and Losses of the Company shall be allocated to the Members in accordance with their Percentage Interests; provided, however, that if a Member has contributed appreciated property to the Company in kind, and the property is later transferred by the Company (including but not limited to sales or distributions in kind to Members other than the contributing Member), to the extent required by Section 704(c) of the Code, income, gain, loss or other deductions, other than depreciation, shall be allocated to the contributing Member.

ARTICLE 5: DISTRIBUTIONS

5.01 Distributions of Net Cash From Operations. Net Cash From Sales. and Net Cash From Refinancings. Net Cash from Operations, Net Cash from Sales, and Net Cash from Refinancings shall be distributed, at such times as the Manager(s) may determine, to the Members in accordance with the respective Percentage Interests.

5.02 Reinvestment of Net Cash From Operations and Net Cash From Sales and Net Cash From Refinancings. The Manager(s) may, from time to time, reinvest all or any portion of Net Cash From Operations and Net Cash From Sales and Net Cash From Refinancings.

5.03 Distribution in Kind. Distributions of property other than cash shall be apportioned among the members on the same basis as would be a distribution of Net Cash From Sales in the amount of the fair market value of the distributed property as of the date of distribution, with the same effect on the apportionment of the distribution and all future distributions of cash or other property as a distribution of cash in such amount.

ARTICLE 6: MANAGEMENT

6.01 Management. The business, operations and properties of the Company shall be managed by the Manager(s). The initial Manager(s) shall be Kenneth M. Woolley. Kenneth M. Woolley shall serve as Manager(s) of the Company until the dissolution of the Company, as hereinafter provided, or until otherwise replaced as set forth in this Agreement. The Manager(s) can be replaced upon a vote of the Members at a regular meeting of the Members or special meeting of the Members called for that purpose. If the Manager(s) should fail or cease to serve then a replacement Manager(s) shall be elected by a vote of the Members at a regular or special meeting of the Members, called for that purpose. At any time when more than one Manager is serving, every action, determination, vote, consent, or approval of the Manager(s) shall require the unanimous consent of the Manager(s). If the Manager(s) cannot agree upon any particular matter, such matter shall be determined by the Members.

6.02 General Powers of Manager(s). The Manager(s) shall be solely responsible for the management of the Company's business and activities with all rights and powers generally conferred by law or necessary, advisable or consistent in connection therewith. In the event that the Manager(s) are unable to agree upon any matter calling for the vote, consent, approval, action, or determination of the Manager(s), the matter shall be determined by the Members. Except as expressly provided otherwise in this Agreement, no Member, in the capacity of a Member, shall have any right to participate in the management of the Company or to vote with respect to any matter to be determined by the Members of the Company.

6.03 Specific Powers of the Manager(s). In addition to any other rights and powers which a manager may possess, the Manager(s) shall have all specific rights and powers required or appropriate to his management of the Company business, conferred by this Agreement, by the Act or otherwise, including by way of illustration and not by way of limitation the following:

(a) To acquire, hold and dispose of any real or personal property, interest therein, or appurtenance thereto, as well as personal or mixed property connected with any real property, including the purchase, lease development, improvement, maintenance, exchange, trade or sale of such properties, at such price, rental or amounts, for cash, securities or other property, and upon such terms, as are deemed by such Manager(s) to be in the best interest of the Company;

(b) To authorize any entity in which the Company holds an interest to acquire, hold and dispose of any real or personal property, interest therein, or appurtenance thereto, as well as personal or mixed property connected with any real property, including the purchase, lease development, improvement, maintenance, exchange, trade or sale of such properties, at such price, rental or amounts, for cash, securities or other property, and upon such terms, as are deemed by such
Manager(s) to be in the best interest of the Company;

(c) To borrow money and, if security is required therefore, to mortgage or lien any portion of the property of the Company, to obtain replacements of any mortgage or other security device, and to prepay, in whole or in part, refinance, increase, modify, consolidate, or extend any mortgage or other security device, all of the foregoing at such terms and in such amounts as are deemed by such Manager(s) to be in the best interest of the Company;

(d) To authorize any entity in which the Company owns an interest to borrow money and, if security is required therefore, to authorize such entity to mortgage or lien any portion of the property of such entity, to obtain replacements of any mortgage or other security device, and to prepay, in whole or in part, refinance, increase, modify, consolidate, or extend any mortgage or other security device, all of the foregoing at such terms and in such amounts as are deemed by such
Manager(s) to be in the best interest of the Company;

(e) To place record title to, or the right to use, Company assets in the name or names of a nominee or nominees for any purpose convenient or beneficial to the Company;

(f) To acquire and enter into any contract or insurance which the Company deems necessary and proper for the protection of the Company, for the conservation of its assets, or for any purpose convenient, or beneficial to the Company;

(g) To employ from time to time persons, firms or corporations for the operation and management of the Company business, including but not limited to, supervisory and managing agents, brokers, attorneys, accountants and other professionals, on such terms and for such compensation as the Manager(s) shall determine;

(h) To pay any and all organizational expenses incurred in the creation of the Company;

(i) To compromise, arbitrate, or otherwise adjust claims in favor of or against the Company and to commence or defend litigation with respect to the Company or any assets of the Company as the Manager(s) may deem advisable, all or any of the above matters being at the expense of the Company;

(j) To borrow money from banks, other lending institutions, and other lenders for any Company purpose including the maintenance of a margin account with any securities broker (except as specifically prohibited by this Agreement), and in connection therewith issue notes, debentures and other debt securities and hypothecate the assets of the Company to secure repayment of borrowed sums; and no bank, other lending institution, or other lender to which application is made for loan by the Manager(s) shall be required to inquire as to the

purposes for which such loan is sought, and as between this Company and such bank, other lending institution, or other lender, it shall be conclusively presumed that the proceeds of such loan are to be and will be used for the purposes authorized under this Agreement;

(k) To authorize any entity in which the Company holds an interest to borrow money from banks, other lending institutions, and other lenders for any purpose of such entity including the maintenance of a margin account with any securities broker (except as specifically prohibited by this Agreement), and in connection therewith issue notes, debentures and other debt securities and hypothecate the assets of such entity to secure repayment of borrowed sums; and no bank, other lending institution, or other lender to which application is made for loan by such entity, as authorized by the Manager(s), shall be required to inquire as to the purposes for which such loan is sought, and as between this Company and such bank, other lending institution, or other lender, it shall be conclusively presumed that the proceeds of such loan are to be and will be used for the purposes authorized under this Agreement;

(l) To maintain, at the expense of the Company, accurate records and accounts of all operations and expenditures and furnish the Members with annual statements of account as of the end of each Company Fiscal Year, together with tax reporting information, and quarterly reports on the operations of the Company;

(m) To purchase, at the expense of the Company, liability and other insurance to protect the Company's properties and business and to protect the Manager(s), his or her agents and employees, and the Members;

(n) To execute instruments, enter into agreements and contracts with parties, and give receipts, releases and discharges with respect to all of the foregoing matters set forth in subsections 6.03(a) through 6.03(m) above, and any matters incident thereto as the Manager(s) may deem advisable or appropriate;

(o) To make certain elections under the tax laws of the United States, the State of Utah, and other relevant jurisdictions as to the treatment of items of Company income, gain, loss, deduction and credit, and as to all other relevant matters (including without limitation elections under Section 754 of the Code as the Manager(s) believes necessary or desirable.

6.04 Limitations on Manager(s). Notwithstanding anything in this Agreement to the contrary, without the consent of the Members, the Manager(s) shall have no authority to:

(a) Do any act in contravention of this Agreement;

(b) Do any act which would make it impossible to carry on the ordinary business of the Company;

(c) Confess a judgment against the Company;

(d) Possess Company property or assign the rights of the Company in specific Company property for other than a Company purpose; or

(e) Admit a Person as a Member, except as otherwise provided in this Agreement.

6.05 Manager(s)' Time. Each Manager shall devote such of his time to the business of the Company as he or she may, in his or her sole discretion, deem to be necessary to conduct the Company's business. No Manager shall be required to devote his or her full time to the Company's business. The Manager(s) shall be entitled to such compensation for their services as may be approved, from time to time, by the Members.

6.06 Reimbursement. Each Manager shall be reimbursed for all out-of-pocket expenses incurred in organizing the Company, including all legal and accounting fees incurred. Thereafter the Manager shall be reimbursed for all goods and materials used for or by the Company. All expenses of the

Company shall be billed directly to and paid by the Company. The Manager(s) shall be reimbursed for any administrative expenses including salaries, rent, travel expenses, and other items generally within the purview of furthering the Company business.

6.07 Exculpation. The Manager(s) shall not be liable to the Company or to any of its Members for honest mistakes of judgment or for losses due to such mistakes or to the negligence, dishonesty or bad faith of any employee or agent of the Company; provided that such employee or agent was selected, engaged or retained by the Manager(s) as authorized by the Company with reasonable care. The Manager(s) may rely upon the advice of legal counsel to the Company in determining what acts or omissions are within the scope of authority conferred by this Agreement. The Company shall indemnify and hold harmless each Manager and his or her agents from and against any loss, expense, damage or injury suffered or sustained by them by reason of or in furtherance of the interest of the Company, including, but not limited to any judgment, award, settlement, reasonable attorneys' fees and other costs or expenses incurred in connection with the defense of any action or threatened action, proceeding or claim, provided that the acts, omissions, or alleged acts or omissions upon which such action or threatened action, proceedings or claims are based were performed or omitted in good faith and not fraudulently, in bad faith, as a result of wanton and willful misconduct or gross negligence.

ARTICLE 7: MEETINGS OF MEMBERS

7.01 Regular Meetings. The Company may hold regular meetings as from time to time designated by Members holding over 20% of the then issued and outstanding Percentage Interests, or by the Manager(s). Such regular meetings shall be held at such time and place as designated by the Members or by the Manager(s), designating such meetings, as the case may be.

7.02 Notice of Members Meetings. The Manager(s) shall, and any Member may, give written notice stating the place, day, and hour of both regular and special meetings, and in the case of a special meeting, the purpose or purposes for which the meeting is called, which shall be delivered not less than ten (10) nor more than thirty (30) days before the date of the meeting to each Member of record entitled to vote at such meeting. Notice of any meeting of Members, annual or special, shall be given in the manner specified in Section 14.01.

If any notice addressed to a Member at the address of such Member appearing on the books of the Company is returned to the Company by the United States Postal Service marked to indicate

that the United States Postal Service is unable to deliver the notice to the Member at such address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the Member upon written demand of the Member at the principal executive office of the Company for a period of one (1) year from the date of the giving of such notice. A certificate or an affidavit of the mailing, transmission or other means of giving any notice of any Members' meeting shall be executed by a Manager, and shall be filed and maintained in the minute book of the Company.

7.03 Waiver of Notice. If, under the provisions of the Act, the Articles of Organization, or this Agreement, notice is required to be given to a Member or to the Manager(s), a waiver in writing signed by the person or persons entitled to the notice, whether made before or after the time for notice to be given, is equivalent to the giving of notice.

7.04 Quorum. Members owning more than 50% of the Percentage Interests of the Company represented in person or by proxy, shall constitute a quorum at a meeting of Members. If Members holding less than 50% of the Percentage Interests of the Company are represented at a meeting, Members holding a majority of the Percentage Interests so represented may adjourn the meeting from time to time without further notice. At a meeting resumed after any such adjournment at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The Members present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of Members in such number that less than a quorum remain.

7.05 Voting. A holder of a Percentage Interest, entitled to vote at a meeting, may vote at such meeting in person or by proxy. Except as may otherwise be provided in the Articles of Organization, every Member shall be entitled to a vote equal to the Percentage Interest in the Company of such Member standing in his name on the records of the Company. Except as herein or in the Articles of Organization otherwise provided, all matters which call for a vote, consent, approval or determination of the Members shall be determined by the concurrence of Members owning more than fifty percent (50%) of the Percentage Interests then outstanding.

7.06 Proxies/Power of Attorney. At all meetings of Members, a Member may vote in person or by proxy executed in writing by the Member or by his duly authorized attorney in fact. Such proxy shall be filed with the Company before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

7.07 Action by Written Consent. Any action which may be taken by the Members at a Meeting held pursuant to this ARTICLE 7 or as provided elsewhere in this Agreement may be taken without a meeting, upon the written consent to such action of Members holding the amount of Percentage Interests as is required to take such action.

ARTICLE 8: ACCOUNTING, BOOKS AND RECORDS

8.01 Accounting, Books and Records. The Company shall maintain at its principal place of business separate books of account for the Company which shall show a true and accurate record of all costs and expenses incurred, all charges made, all credits made and received, and all income

derived in connection with the operation of the Company business in accordance with generally accepted accounting principles consistently applied and, to the extent inconsistent therewith, in accordance with this Agreement. The Company shall use the cash method of accounting in preparation of its annual reports and for tax purposes and shall keep its books accordingly. Each Member shall, at his sole expense, have the right, at any time without notice to any other Member, to examine, copy, and audit the Company's books and records during normal business hours.

8.02 Records Required by the Act. The Company shall keep the following records at its Designated Office:

(a) a current list in alphabetical order of the full name and last-known business, residence, or mailing address of each member and each manager;

(b) a copy of the stamped articles of organization and all certificates of amendment thereto, together with a copy of all signed powers of attorney pursuant to which the articles of organization or any amendment has been signed;

(c) a copy of a writing prepared by the Person or Persons who signed and filed the Articles of Organization which sets forth;

(1) the name and street address of each initial Member of the Company;

(2) the name and street address of each initial Manager of the Company (if any);

(3) a copy of the Company's federal, state and local income tax returns and reports, if any, for the three most recent years;

(4) a copy of any financial statements of the Company, if any, for the three most recent years;

(5) a copy of the Company's operating agreement, if any, and all amendments thereto; and

(6) a copy of the minutes, if any, of each meeting of Members and of any written consents obtained from Members.

8.03 Reports. Within one hundred and twenty (120) days after the end of each Fiscal Year, the Company shall cause each Member to be furnished with a copy of the balance sheet of the Company as of the last day of the applicable period, a statement of income or loss for the Company for such period, and a statement of the Company's cash flow for such period.

8.04 Tax Returns: Information. The Manager(s) shall cause the Company to prepare all income and other tax returns of the Company and shall cause the same to be filed in a timely manner. The Company shall furnish to each Member a copy of each such return, together with any schedules or other information which each Member may require in connection with such Member's own tax affairs.

8.05 Special Basis Adjustment. In connection with any Transfer of a Company interest, the Company shall, at the written request of the transferor or the transferee, on behalf of the Company and at the time and in the manner provided in Regulations Section 1.754-1(b), make an election to adjust the basis of the Company's property in the manner provided in Sections 734(b) and 743(b) of the Code, and such transferee shall pay all costs incurred by the Company in connection therewith, including, without limitation, reasonable attorneys' and accountants' fees.

8.06 Tax Matters Partner. A "Tax Matters Partner" shall be designated by the Members in accordance with the applicable provisions of the Code and to act in any similar capacity under state or local law. All of the Members shall be required to cooperate fully with the Tax Matters Partner in the discharge of its responsibility as such. Kenneth M. Woolley is hereby designated the Tax Matters Partner, and may be replaced as such by determination of the Members.

ARTICLE 9: TRANSFER OF MEMBERSHIP INTERESTS

9.01 Prohibition on Hypothecation by Members. No Member shall mortgage or grant a security interest in his Interest in the Company.

9.02 Restrictions on Transfers. Except as expressly permitted or required by this Agreement, no Member shall Transfer all or any portion of his interest in the Company or any rights therein without the consent of Members holding at more than fifty percent (50%) of the aggregate Percentage Interests of all Members. Any Transfer or attempted Transfer by any Member in violation of the preceding sentence shall be null and void and of no force or effect whatever. Notwithstanding anything to the contrary in this Agreement, the Members hereby agree to consent to Transfers of interests in the Company by any Member and agree to consent to the substitution of the transferees of such Transfers as substitute members of the Company provided that (a) such transfers are made to a limited liability company, trust, partnership, or other entity for estate planning purposes, (b) such Member retains the ability, directly or indirectly, to direct the outcome of any determination of such transferee, whether by vote, consent or otherwise, without the vote, consent or approval of any other Person, (c) appropriate amendments are made to this Agreement to reflect such Transfer, and (d) such Transfer and the transferor and transferee of such Transfer comply with the provisions of Sections 9.04 and 9.08. Each Member hereby acknowledges the reasonableness of the restrictions on Transfer imposed by this Agreement in view of the Company purposes and the relationship of the Members. Accordingly, the restrictions on Transfer contained herein shall be specifically enforceable. Each Member hereby further agrees to hold the Company and each Member (and each Member's successors and assigns) wholly and completely harmless from any cost, liability, or damage (including, without limitation, liabilities for income taxes and costs of enforcing this indemnity) incurred by any of such indemnified Persons as a result of a Transfer or an attempted Transfer in violation of this Agreement.

9.03 Transfers to Other Members. If, but only if, a Member (hereinafter the "Selling Member") receives from another Member (hereinafter the "Purchasing Member") a written offer to purchase all of the Interest of the Selling Member which written offer (hereinafter the "Purchase Offer") the Selling Member desires to accept, the Selling Member shall give all of the other Members written notice of that fact (hereinafter the "Sale Notice"). The Selling Member shall attach to the Sale Notice a copy of the Purchase Offer. For a period (hereinafter the "Election Period")

ending at 11:59 P.M. (local time at the Company's principal place of business) on the forty-fifth day following the day on which the Sale Notice is given (hereinafter the "Election Day"), the Members other than the Selling Member may elect, by notice to the Selling Member, to purchase all or any portion of the Interest of the Selling Member, which notice shall state the maximum Percentage Interest that such Member is willing to purchase. Said election and purchase shall be made by giving notice thereof (the "Purchase Notice") to all Members, which Purchase Notice shall not be valid unless it states the maximum Percentage Interest that such Member (a "Purchase Notice Member") is willing to purchase. If the aggregate Percentage Interests that Purchase Notice Members are willing to purchase pursuant to valid Purchase Notices equals or exceeds the entire Percentage Interests of the Selling Member, such Purchase

Notice Members shall become "Purchasing Members" and shall be obligated to purchase all of the Interest of the Selling Member and the Selling Member shall be obligated to sell its Interest to the Purchasing Members. Each Purchasing Member shall be obligated to purchase that portion of the Selling Members' Interest that corresponds to the ratio of the Percentage Interests that such Purchasing Member indicated willingness to purchase in his Purchase Notice to the aggregate Percentage Interests that all such Purchasing Members indicated willingness to purchase under all Purchase Notices. In the event that the Members other than the Selling Member do not elect to purchase the entire Interest of the Selling Member, the Selling Member shall be free to sell his Interest to the Purchasing Member for the price, and on the terms specified and described in the Purchase Offer; provided, however, that if the sale contemplated by the Purchase Offer is not consummated within thirty (30) days after the expiration of the Election Period, the Selling Member shall again give a Sale Notice with respect to such Purchase Offer and follow the procedures outlined and required by this Section 9.03 as if such procedures had not previously been followed with respect to such Purchase Offer. If the Members other than the Selling Member elect to purchase the entire Interest of the Selling Member, the purchase price and other terms of purchase shall be identical to those set forth in the Purchase Offer; provided, however, that the closing shall occur on or before the date that is thirty (30) days after the expiration of the Election Period, at the Company's principal place of business. A Person who acquires all or any part of the Interest of a Selling Member (either pursuant to this Section 9.03 or pursuant to a Purchase Offer after the Selling Member has complied with the provisions of this Section 9.03) shall, upon satisfaction of the requirements specified in Sections 9.04 and 9.07, acquire such Interest in the capacity as a Member and shall have all of the rights of a Member with respect to such Interest (or any part thereof) and particularly, without limiting the generality of the foregoing, the Percentage Interest relating to such Interest shall thereafter be deemed part of the total Percentage Interest owned by the Member for all purposes of this Agreement.

9.04 Conditions to Transfers. Any Transfer not approved under this ARTICLE 9 shall be null and void and of no force or effect whatever.

(a) Any transferor and transferee shall execute such documents and instruments of conveyance and assumption as may be necessary or appropriate in the opinion of counsel to the Company to effect such Transfer and to confirm the Transferee's agreement to be bound by the provisions of this Agreement and assumption of all monetary obligations of the transferor Member with respect to the interest being transferred and the transferor Member's agreement to guarantee the prompt payment and performance of such assumed obligations.

(b) The Company shall receive, prior to any Transfer, an opinion of counsel satisfactory to the Company confirming that such Transfer will not terminate the Company for federal income tax purposes.

(c) The transferor and transferee shall furnish the Company with the transferee's taxpayer identification number, sufficient information to determine the transferee's initial tax basis in the interest transferred, and any other information reasonably necessary to permit the Company to file all required federal and state tax returns and other legally required information statements or returns. Without limiting the generality of the foregoing, the Company shall not be required to make any distribution otherwise provided for in this Agreement with respect to any transferred interest until it has received such information.

(d) A Member making a Transfer of all or a portion of his Company interest and the Transferee thereof shall pay all reasonable costs and expenses incurred by the Company in connection with such Transfer.

9.05 Admission of Transferee as a Member. A Transferee of an interest in the Company shall be admitted as a Member in the Company only upon the consent of the Members owning more than fifty percent (50%) of the aggregate Percentage Interests of all Members. The rights of a Transferee who is not admitted as a Member shall be limited to the right to receive allocations and distributions from the Company with respect to the interest transferred, as provided by this Agreement. The Transferee of such interest shall not be a Member with respect to such interest, and, without limiting the foregoing, shall not have the right to vote as a Member, inspect the Company's books, act for or bind the Company, or otherwise interfere in its operations.

9.06 Effect of Transfer on Company. The Members intend that the Transfer of an interest in the Company shall not cause the dissolution of the Company under the Act; however, notwithstanding any such dissolution, the Members shall continue to hold the Company's assets and operate its business in limited liability company form under this Agreement as if no such dissolution had occurred.

9.07 Distribution Among Members. If a Transfer of an interest in the Company approved under ARTICLE 9 occurs during any Fiscal Year, Profits, Losses, each item thereof, and all other items attributable to such interest for such Fiscal Year shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the Fiscal Year in accordance with Code Section 706(d), using any conventions permitted by law and selected by the Members. All distributions on or before the date of a Transfer approved under ARTICLE 9 shall be made to the transferor, and all distributions thereafter shall be made to the transferee. If a Transfer was not approved under ARTICLE 9, all of such items shall be allocated, and all distributions shall be made, to the Person who, according to the books and records of the Company, on the last day of the Fiscal Year during which the Transfer occurs, was the owner of the Company interest. The Members and the Company shall incur no liability for making allocations and distributions in accordance with the provisions of this Section 9.07, whether or not any of the Members or the Company has knowledge of any Transfer or purported Transfer of ownership of any interest in the Company.

9.08 Additional Restrictions. Notwithstanding the provisions of this ARTICLE 9, a Member may only sell, assign, or otherwise transfer any Interest in the Company if:

(a) The proposed transfer will not result in the termination of the Company as provided in Section 708(b) of the Code, or otherwise adversely affect the Company's tax status as a partnership thereunder. The Members are expressly authorized to enforce this provision by notifying the Selling Members that all transfers or assignments will be suspended for a period of up to twelve (12) months whenever interests in the Company representing aggregate interests of thirty five percent (35%) or more in Company capital or revenues shall have been effectively transferred in any twelve (12) month period;

(b) Such Selling Member and his purchaser, transferee or assignee execute such instruments of transfer and assignment with respect to such transactions as are in form and substance satisfactory to the non-selling Members; and

(c) The assignor or transferor delivers to the Company an opinion of counsel, in form acceptable to counsel to the Company; that:

(1) the proposed transfer or assignment of the Interest complies with all federal and state laws and regulations, including the Securities Act of 1933, and

(2) the proposed transfer or assignment will not affect the availability to the Company of the exemption from registration of the interest provided by the Securities Act of 1933 or any Rule or Regulation promulgated by the Securities and Exchange Commission or the similar exemption from registration under the securities laws of any applicable state.

In the event of a transfer of a Member's Interest, if it is in the best interest of the Company to do so, the Company may make an election, as provided for in Section 754 of the Code, to adjust the basis of the Company assets.

ARTICLE 10: BUY-SELL

10.01 Determination of Net Equity of Adverse Member's Interest. Prior to the end of the sixtieth day following the day upon which a Member (an "Adverse Member") commits or suffers an Adverse Act, or the sixtieth day after the day any Member other than the Adverse Member receives actual notice of such Adverse Act, any Member may send notice to the Adverse Member of the Adverse Act, and such Adverse Member shall have thirty days following the date of such notice (the "Notice Period") within which to cure the Adverse Act which is the subject of the notice. At any time prior to the end of the sixtieth day following the end of the Notice Period, any Member, by notice to all other Members ("Member Notice"), may cause the Net Equity of the Adverse Member's interest in the Company to be determined as of the date of such Member Notice. Such notice shall designate the First Appraiser as required by Section 10.05 hereof and the Adverse Member shall appoint the Second Appraiser within ten (10) Business Days of receiving such notice designating the First Appraiser.

10.02 Election to Purchase Interest of Adverse Member. For a period (the "Election Period") ending at 11:59 P.M. (local time at the Company's principal place of business) on the thirtieth day following the day on which notice of the Adverse Member's Net Equity is given pursuant to Section 10.04 hereof (the "Election Day"), the Members other than the Adverse Member may elect, by notice to the Adverse Member, to purchase all or any portion of the interest of the Adverse Member, which notice shall state the maximum Percentage Interest that such Member is willing to purchase. Said election and purchase shall be made by giving notice thereof (the "Purchase Notice") to all Members, which Purchase Notice shall not be valid unless it states the maximum Percentage Interest that such Member (a "Purchase Notice Member") is willing to purchase. If the aggregate Percentage Interests that Purchase Notice Members are willing to purchase pursuant to valid Purchase Notices equals or exceeds the entire Percentage Interests of the Adverse Member, the Purchase Notice Members shall become "Purchasing Members" and shall be obligated to purchase all of the interests of the Adverse Member and the Adverse Member shall be obligated to sell its interests to the Purchasing Members. Each Purchasing Member shall be obligated to purchase that portion of the Selling Members' interests that corresponds to the ratio of the Percentage Interests that such Purchasing Member indicated willingness to purchase in his Purchase Notice to the aggregate Percentage Interests that all such Purchasing Members indicated willingness to purchase under all Purchase Notices. In the event that the other Members do not elect to purchase the entire interest of the Adverse Member, the Adverse Member shall be under no obligation to sell any portion of its interest to any Member. The cost of determining Net Equity shall be borne one-half by the Adverse Member and one-half by the Company and the amount borne by the Company shall be treated as an expense of the Company for purposes of such determination.

10.03 Terms of Purchase: Closing. The closing of the purchase and sale of the Adverse Member's interests shall occur on a date and time mutually agreeable to the Purchasing and the Adverse Members, which shall not be later than 10:00 A.M. (local time at the place of the closing) on the first Business Day occurring on or after the sixtieth day following the last day of the Election Period and at such place as is mutually agreeable to the Purchasing Members and Adverse Member, or upon the failure to agree, at the Company's principal place of business. At the closing each Purchasing Member shall pay to the Adverse Member, by cash or other immediately available funds, that portion of the Buy-Sell Price of such Adverse Member's interest that corresponds to a fraction, the numerator of which is the portion of the Aggregate Buy-Sell Price for which such Purchasing Member is liable, and the denominator of which is the Aggregate Buy-Sell Price, and the Adverse Member shall deliver to each Purchasing Member good title, free and clear of any liens, claims, encumbrances, security interests or options (other than those granted by this Agreement) to the portion of the Adverse Member's interest thus Purchased. Each Purchasing Member shall be liable only for the Purchasing Member's individual portion of the Buy-Sell Price to Adverse Member. In the event that any Purchasing Member shall fail to perform his obligation to purchase hereunder, and no other Purchasing Member elects to purchase the portion of the Adverse Member's interest thus not purchased, such Adverse Member shall not be obligated to sell any portion of his interest to any Purchasing Member.

At the closing the Members shall execute such documents and instruments of conveyance as may be necessary or appropriate to confirm the transactions contemplated hereby, including, without limitation, the Transfer of the Company interests of the Adverse Member to the Purchasing Members and the assumption by each Purchasing Member of each Adverse Member's obligation with respect

to the portion of the Adverse Member's interest transferred to such Purchasing Member. The reasonable costs of such Transfer and closing, including, without limitation, attorneys' fees and filing fees, shall be divided equally between the Adverse Member and the Purchasing Members.

The price at which the interest of the Adverse Member is purchased and sold under this Section 10.03 (the "Buy-Sell Price" of such interest) is ninety percent (90%) of the Net Equity thereof, determined as of the Election Day, unless the Adverse Member is an Adverse Member solely because of a transfer of an interest in a Member upon the death of any Person owning, directly or indirectly, an interest in a Member, in which event the Buy-Sell Price of such interest shall be one hundred percent (100%) of the Net Equity thereof, determined as of the Election Day. The aggregate price of all interests required to be bought and sold hereunder is the "Aggregate Buy-Sell Price."

10.04 Net Equity. The "Net Equity" of a Member's interest in the Company, as of any day, shall be the amount that would be distributed to such Member in liquidation of the Company pursuant to ARTICLE 11 hereof if (1) all of the Company's assets were sold for their Gross Appraised Values, (2) the Company paid its accrued, but unpaid, liabilities and established reserves pursuant to Section 11.06 hereof for the payment of reasonably anticipated contingent or unknown liabilities, and (3) the Company distributed the remaining proceeds to the Members in liquidation, all as of such day, provided that in determining such Net Equity, no reserve for contingent or unknown liabilities shall be taken into account if such Member (or his successor in interest) agrees to indemnify the Company and all other Members for that portion of any such reserve as would be treated as having been withheld pursuant to Section 11.06 hereof from the distribution such Member would have received pursuant to Section 11.05 hereof if no such reserve were established.

The Net Equity of a Member's interest in the Company shall be determined, without audit or certification, from the books and records of the Company by a firm of independent certified public accountants designated by the Manager(s). The Net Equity of a Member's interest shall be determined within sixty (60) days of the day upon which such accountants are appraised in writing of the Gross Appraised Value of the Assets of the Company, and the amount of such Net Equity shall be disclosed to the Company and each of the Members by written notice, prepared and delivered by such accountants, the Manager(s), or any Member, to the Members. The Net Equity determination of such accountants shall be final and binding in the absence of a showing of gross negligence or willful misconduct.

10.05 Gross Appraised Value of the Assets of the Company. "Gross Appraised Value of the Assets of the Company," as of any day, shall be equal to the fair market value of all of the assets of the Company as of such day. As used herein, as of any day, the "fair market value" of the assets of the Company means the maximum amount that a single buyer would reasonably be expected to pay for all of the Assets of the Company, on such day, determined on an asset by asset basis, free and clear of all liens and encumbrances, in a single cash purchase.

In situations under this Agreement in which it is necessary to determine the Gross Appraised Value of the Assets of the Company, the provision requiring such determination provides the manner and time for the appointment of two appraisers (the "First Appraiser" and the "Second Appraiser"). If the Second Appraiser is timely designated, the First and Second Appraisers shall each, within forty-five (45) days of such appointment, give written notice to the Company, the Members, and the

firm of independent certified public accountants designated by the Manager(s), of their respective determinations of the Gross Appraised Value of the Assets of the Company. If the difference between the separate determinations of the Gross Appraised Value of the Assets of the Company of the First Appraiser and the Second Appraiser is less than $500,000.00, the Gross Appraised Value of the Assets of the Company shall, for purposes of this Agreement, be equal to the average of the determinations of the Gross Appraised Value of the Assets of the Company of the First Appraiser and the Second Appraiser. If the difference between the separate determinations of the Gross Appraised Value of the Assets of the Company of the First Appraiser and the Second Appraiser is more than $500,000.00, then at any time after such period, either the Persons who appointed the First Appraiser or the Persons who appointed the Second Appraiser, by written notice to the First Appraiser and Second Appraiser, may demand that they appoint a Third Appraiser (the "Third Appraiser"). If the First Appraiser and Second Appraiser have not appointed the Third Appraiser (who shall have agreed to serve) by the twentieth day after such demand, either the Persons who appointed the First Appraiser or the Persons who appointed the Second Appraiser may request any judge of the Fourth Judicial District Court of the State of Utah to appoint the Third Appraiser. The Third Appraiser shall, within thirty (30) days after his or her appointment, make a determination of the Gross Appraised Value of the Assets of the Company and provide written notice of that determination to the Company, the members and the firm of independent certified public accountants designated by the Manager(s). Upon the determination of the Gross Appraised Value of the Assets of the Company by the Third Appraiser, the Gross Appraised Value of the Assets of the Company shall, for purposes of this Agreement, be equal to the average of the two closest determinations of the Gross Appraised Value of the Assets of the Company by the First, Second, and Third Appraisers.

If a Second Appraiser is not timely appointed in the manner provided by this Agreement, and if such Second Appraiser remains unappointed for more than ten (10) days after the Person entitled to make such appointment is given written notice that such Second Appraiser has not been timely appointed as provided in this Agreement, the Gross Appraised Value of the Assets of the Company shall be determined solely by the First Appraiser who shall give notice of such Gross Appraised Value of the Assets of the Company to the Company, the Members, and the firm of independent certified public accountants designated by the Manager(s) within thirty (30) days of the last day on which the Second Appraiser could have been timely designated.

Each appraiser appointed hereunder shall be disinterested and shall be a member of the Appraisal Institute or other appropriate body and qualified to appraise business similar to that of the Company.

ARTICLE 11: DISSOLUTION AND WINDING-UP

11.01 Waiver of Partition. No Member shall, either directly or indirectly, take any action to require partition, file a bill for Company accounting or appraisement of the Company or of any of its assets or properties or cause the sale of any Company property, and notwithstanding any provisions of applicable law to the contrary, each Member (and each of his legal representatives, successors, or assigns) hereby irrevocably waives any and all rights it may have to maintain any action for partition or to compel any sale with respect to his Company interest, or with respect to any assets or properties of the Company, except as expressly provided in this Agreement.

11.02 Covenant Not to Withdraw or Dissolve. Notwithstanding any provision of the Act, each Member hereby covenants and agrees that the Members have entered into this Agreement based on their mutual expectation that all Members will continue as Members and carry out the duties and obligations undertaken by them hereunder and that, except as otherwise expressly required or permitted hereby, each Member hereby covenants and agrees not to (a) take any action to file a certificate of dissolution or its equivalent with respect to itself, (b) take any action that would cause a Voluntary Bankruptcy of such Member, (c) withdraw or attempt to withdraw from the Company, (d) exercise any power under the Act to dissolve the Company, (e) Transfer all or any portion of his interest in the Company, (f) petition for judicial dissolution of the Company, or (g) demand a return of such Member's contributions or profits (or a bond or other security for the return of such contributions or profits) without the consent of the Members holding more than fifty percent (50%) of the Percentage Interests.

11.03 Dissolution and Termination of the Company. The Company shall be dissolved and terminated upon the first to occur of any of the following ("Liquidating Events"):

(a) By written agreement of Members holding more than fifty percent (50%) of the Percentage Interests;

(b) The happening of any other event that makes it unlawful or impossible to carry on the business of the Company; or

(c) When the Company is not the successor or survivor entity in any merger or consolidation between the Company and any one (1) or more other entities.

(d) If the Company has not previously been dissolved and terminated, on the date which is thirty (30) years after the date on which the Articles of Organization for the Company were first filed with the Division of Corporations and Commercial Code of the Department of Commerce for the State of Utah.

11.04 Effect of Bankruptcy, Death or Incompetency of a Member. The bankruptcy, death, dissolution, liquidation, termination or adjudication of incompetency of a Member shall not cause the termination or dissolution of the Company and the business of the Company shall continue. Upon any such occurrence and unless the trustee, receiver, executor, administrator, committee, guardian or conservator of such Member is admitted as a Member of the Company in accordance with the Operating Agreement, the trustee, receiver, executor, administrator, committee, guardian or conservator of such Member shall have the rights specified in Section 9.05 of this Agreement. The transfer by such trustee, receiver, executor, administrator, committee, guardian or conservator of any Company Interest shall be subject to all of the restrictions set forth in this Agreement to which such transfer would have been subject if such transfer had been made by such bankrupt, deceased, dissolved, liquidated, terminated or incompetent Member.

11.05 Winding Up. Upon the dissolution of the Company, the Company shall continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and Members and no Member shall take any action that is inconsistent with, or not necessary to or appropriate for, winding up the Company's business and

affairs. To the extent not inconsistent with the foregoing, all covenants and obligations in this Agreement shall continue in full force and effect until such time as the Property has been distributed pursuant to this Section 11.05 and the Company has terminated. The Members shall be responsible for overseeing the winding up and liquidation of the Company, shall take full account of the Company's liabilities and Property, shall cause the Property to be liquidated as promptly as is consistent with obtaining the fair market value thereof, and shall cause the proceeds therefrom, to the extent sufficient therefore, to be applied and distributed in the following order:

(a) First, to the payment and discharge of all of the Company's debts and liabilities to creditors, including debts and liabilities to creditors who are Members, and to the establishment of reserves for the payment of the debts and liabilities of the Company in accordance with applicable law;

(b) The balance, if any, to the Members in accordance with their Percentage Interests.

11.06 Reserve for Liabilities. In the discretion of the Members, a pro rata portion of the distributions that would otherwise be made to the Members pursuant to Section 11.05(b) hereof may be:

(a) distributed to a trust established for the benefit of the Members for the purposes of liquidating Company assets, collecting amounts owed to the Company, and paying any contingent or unforeseen liabilities or obligations of the Company or of the Members arising out of or in connection with the Company. The assets of any such trust shall be distributed to the Members from time to time, in the reasonable discretion of the Members, in the same proportions as the amount distributed to such trust by the Company would otherwise have been distributed to the Members pursuant to Section 11.05 hereof; or

(b) withheld to provide a reasonable reserve for Company liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the Company, provided that such withheld amounts shall be distributed to the Members as soon as practicable.

11.07 Deemed Distribution and Recontribution. Notwithstanding any other provisions of this ARTICLE 11, in the event the Company is liquidated within the meaning of Regulations Section 1.704-l(b)(2)(ii)(g) but no Liquidating Event has occurred, the Property shall not be liquidated, the Company's liabilities shall not be paid or discharged, and the Company's affairs shall not be wound up. Instead, the events described in Regulations Section 1.708-l(b)(1)(iv) as in effect at the time of the liquidation described in the previous sentence shall be deemed to have occurred.

11.08 Return of Capital. Each Member shall look solely to the assets of the Company and to the Company property remaining after the payment or discharge of the debts and liabilities of the Company to the Member. If such assets and property are insufficient to return the Capital Contributions of each Member, the Members shall have no recourse against any other Member or against the Manager(s) irrespective of such Member's capital balance, be it a debit or credit balance. However, any Member with a debit or negative balance in his capital balance, upon the dissolution

and winding up of the Company, shall not be entitled to a distribution as to capital or his share of profits.

11.09 Winding Up of the Company. Upon a dissolution of the Company, the winding up of the affairs of the Company and the distribution of its assets shall be conducted by the Manager(s) who are hereby authorized to do any and all acts and things reasonably necessary to accomplish the foregoing. In this regard, the Manager(s) may delegate their obligation to a receiver or a trustee.

A reasonable time shall be allowed for the orderly liquidation of the assets of the Company and the discharge of liabilities to creditors so as to enable the Manager(s) to minimize the losses customarily attendant to distressed dispositions of property. In liquidating the assets of the Company, all assets of a saleable value which the Manager(s) determine are not suitable for an equitable distribution shall be sold at public or private sale as the Manager(s) deem advisable. Any Member may purchase such assets at any such sale.

11.10 Final Accounting. The Company shall furnish each of the Members with a statement prepared by an accountant designated by the Manager(s) which shall set forth the assets and liabilities of the Company as of the date of termination and which shall disclose the sources and applications of Company assets and proceeds thereof during the course of winding up the Company affairs and dissolution. Upon completion of the winding up and termination of the Company, the Members shall execute, acknowledge and cause to be filed Articles of Dissolution of the Company.

11.11 Method of Distribution of Assets. To the extent feasible, all distributions in liquidations shall be made pro rata to the Members in kind. Distribution of specific assets shall be determined by the Manager(s).

11.12 Judicial Dissolution. Notwithstanding anything to the contrary in this Agreement, a court having jurisdiction of the Company and the Members may, in an action commenced by a Member, decree dissolution of the Company if in such action it is established that the Members are deadlocked in the management of the affairs of the Company and because of such deadlock either irreparable injury to the Company is threatened or being suffered or the business and the affairs of the Company can no longer be conducted to the advantage of the Members generally.

ARTICLE 12: AMENDMENT

12.01 Amendment of Articles of Organization. The Company's Articles of Organization shall be amended whenever:

(a) There is a change in the name of the Company;

(b) There is a change in the character of the business of the Company from that specified in the Company's Articles of Organization;

(c) There is a false or erroneous statement in the Articles of Organization;

(d) There is a change in the time, as stated in the Articles of Organization, for the dissolution of the Company;

(e) The Members determine to fix a time not previously specified in the Articles of Organization for the dissolution of the Company; or

(f) The Members desire to make a change in any of the provisions of the Articles of Organization in order for the Articles of Organization to accurately represent the agreement among them.

12.02 Amendment of Agreement. Amendments to this Agreement may be proposed by any Member. The Member proposing such an Amendment shall submit to the Members a verbatim statement of any proposed amendment and shah seek the written vote of the Members on the proposed amendment or shall call a meeting to vote thereon. A proposed amendment shall be adopted and be effective as an amendment hereto only if it receives approval of the Members holding at least sixty percent (60%) of the Percentage Interests.

ARTICLE 13: INDEMNIFICATION

13.01 Agents. Proceedings and Expenses. For the purposes of this Section 13.01, "agent" means any Person who is or was a Member, officer, employee, or other agent of this Company, or is or was serving at the request of this Company as an officer, employee, or agent of another foreign or domestic corporation, company, joint venture, trust or other enterprise, or was an employee, or agent of foreign or domestic corporation which was a Member of this Company. The term "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative, or investigative. The term "expenses" includes, without limitation, attorney's fees and any expenses of establishing a right to indemnification under Subsection 13.01(d), or Subsection 13.01(e) of this Section 13.01.

(a) Actions Other Than By The Company. The Company shall indemnify any Person who was or is a party, or is threatened to be made party, to any proceeding (other than an action by or in the right of this Company) by reason of the fact that such Person is or was an agent of this Company, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if that Person acted in good faith and in a manner that person reasonably believed to not be contrary to the best Interests of this Company and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of that person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of this Company or that the Person had reasonable cause to believe that the Person's conduct was unlawful.

(b) Actions By The Company. The Company shall indemnify any Person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action by or in the right of this Company to procure a judgment in its favor by reason of the fact that Person is or was an agent of this Company, against expenses actually and reasonably incurred by that Person in connection with the defense or settlement of that action if that Person acted in good faith, in a manner that person believed to not he contrary to the best interests of this Company and with such care, including reasonable inquiry, as an ordinarily

prudent person in a like position would use under similar circumstances. No indemnification shall be made under this Subsection 13.01(b):

(1) In respect of any claim, issue or matter as to which that Person shall have been adjudged to be liable to the Company in the performance of that Person's duty to the Company, unless and only to the extent that the court in which that action was brought shall determine upon application that, in view of all the circumstances of the case, that Person is fairly and reasonably entitled to indemnity for the expenses which the court shall determine;

(2) Of amounts paid in settling or otherwise disposing of a threatened or pending action, with or without court approval; or

(3) Of expenses incurred in defending a threatened or pending action which is settled or otherwise disposed of without court approval.

(c) Successful Defense By Agent. To the extent that an agent of this Company has been successful on the merits in defense of any proceeding referred to in Subsection 13.01(b) or 13.01 (c), or in the defense of any claim, issue, or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

(d) Advance of Expenses. Expenses incurred in defending any proceeding shall be advanced by this Company before the final disposition of the proceeding on receipt of an agreement by or on behalf of the agent to repay the amount of the advance unless it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this ARTICLE 13.

(e) Other Contractual Rights. Nothing contained in this ARTICLE 13 shall affect any right to indemnification to which persons other than Members, any officer or agents of this Company or any subsidiary hereof may be entitled by contract or otherwise.

13.02 Other Indemnification. The indemnification herein provided shall not be deemed exclusive of any rights to which those seeking indemnification may be entitled under any agreement, vote of Members (whether disinterested or not), or otherwise, both as to action in his official capacity and as to action in another capacity while holding such position, and shall continue as to a person who has ceased to be a Member or employee, and shall inure to the benefit of the heirs, executors and administrators of such person.

13.03 Insurance. The Company may purchase and maintain insurance on behalf of any person who is or was a Member, officer, or employee of the Company, or is or was serving at the request of the Company as a member, employee or agent of another company, joint venture, trustor other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Company would have the power to indemnify him against liability.

13.04 Settlement by Company. The right of any person to be indemnified shall be subject always to the right of the Company, in lieu of such indemnity, to settle any such claim, action, suit or proceeding at the sole expense of the Company by the payment of the amount of such settlement and the costs and expenses incurred in connection therewith.

ARTICLE 14: MISCELLANEOUS

14.01 Notices. Each Member shall maintain with the records of the Company an address for notices from the Company to such Member. Each Member agrees that as of the date of this Agreement, the address for notices to such Member is set forth in ARTICLE 3 above. Each Member may, by notice given to all of the other Members and the Company at the designated office specified in Section 1.04 above in the manner specified in this Section 14.01 designate another address to which notices are to be sent pursuant to this Agreement. Any notice, payment, demand, or communication required or permitted to be given by any provision of this Agreement shall be in writing and sent by overnight courier, or by telephone or facsimile, if such telephone conversation or facsimile is followed by a hard copy of the telephone conversation or facsimile communication sent by registered mail, return receipt requested, postage prepaid, addressed in the manner specified above in this Section 14.01. Any such notice shall be deemed to be delivered, given, and received as of the earlier of the date so delivered or delivery is refused.

14.02 Title and Captions. Article and Section titles or captions contained in this Agreement are inserted only as a matter of convenience and for reference and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision hereof.

14.03 Gender. Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural, and the masculine gender shall include the feminine and neuter genders and the word “person” shall include corporation, firm, company, or other form of association.

14.04 Counterparts. This Agreement may be executed in several counterparts, and all so executed shall constitute one agreement binding on all parties hereto, notwithstanding that all the parties are not signatory to the original or the same counterpart.

14.05 Governing Law. This Agreement and all amendments hereto shall be governed by the laws of the State of Utah.

14.06 Survival of Terms and Provisions. The terms and provisions of this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the respective Members.

14.07 Severability. The invalidity or unenforceability of any part of this Agreement shall not invalidate or affect the validity or enforceability of any other provision of this Agreement, which shall continue to govern the rights and obligations of the parties hereto as though the invalid or unenforceable provisions(s) were not a part hereof.

14.08 Further Instruments. The Members agree that they will execute any and all other documents or legal instruments that may be necessary or required to carry out and effectuate all of the provisions hereof.

14.09 Preparation of Agreement. The Members acknowledge that they have all participated in the preparation of this Agreement and, in the event that any question arises regarding its interpretation, no presumption shall be drawn in favor of or against any Member with respect to the drafting hereof.

14.10 Entire Agreement. This Agreement constitutes and represents the entire agreement of the Members with respect to the subject matter hereof, and all other prior agreements, covenants, promises and conditions, verbal or written, between the Members are incorporated herein. No Member hereto has relied upon any other promise, representation or warranty, other than those contained herein, in executing this Agreement.

14.11 Waiver of Lis Pendens and Partition. The Members recognize that no Member has any direct right in any Company property, but only an interest in the Company which is personal property. Accordingly, because the Company may suffer irreparable financial loss if a lis pendens were filed or an action for partition were brought with respect to Company property by a Member arising out of a Company dispute, each Member does hereby waive any such right to file a lis pendens against any property of the Company or bring an action for partition thereof.

14.12 Litigation. In the event any Member or the Company finds it necessary to bring an action at law or other proceeding against any Member to enforce any of the terms, covenants or conditions hereof, or by reason of any breach or difficulty hereunder, the party prevailing in any such action or other proceeding shall be entitled to recover against the other party all reasonable attorney's fees and associated costs. In the event any judgment is secured by such prevailing party, all such attorneys' fees and associated costs shall be determined by the court and not a jury and shall be included in any judgment.

14.13 Qualification in Other States. If the business of the Company is conducted in states in addition to the State of Utah, then the Members agree that this Company shall exist under the laws of each state in which such business is actually conducted to the extent that it is necessary in order to do business in such state but that otherwise the laws of the State of Utah shall govern this Company and each Member agrees to execute such other and further documents as may be required in order to qualify the Company to conduct its business in other states. To the extent that business of the Company shall be conducted in another state, the Members may designate a principal place of business and other offices in such state or states.

14.14 Binding Effect. Except as otherwise provided in this Agreement, every covenant, term, and provision of this Agreement shall be binding upon and inure to the benefit of the Members and their respective heirs, legatees, legal representatives, successors, transferees, and assigns.

14.15 Construction. Every covenant, term, and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against any Member. The terms of this Agreement are intended to embody the economic relationship among the Members and shall not be subject to modification by, or be conformed with, any actions by the Internal Revenue Service except as this Agreement may be explicitly so amended and except as may relate specifically to the filing of tax returns.

14.16 Time. Time is of the essence with respect to this Agreement.

14.17 Incorporation by Reference. Every exhibit, schedule, and other appendix attached to this Agreement and referred to herein is not incorporated in this Agreement by reference unless this Agreement expressly otherwise provides.

14.18 Further Action. Each Member agrees to perform all further acts and execute, acknowledge, and deliver any documents which may be reasonably necessary, appropriate, or desirable to carry out the provisions of this Agreement.

14.19 Variation of Pronouns. All pronouns and any variations thereof shall be deemed to refer to masculine, feminine, or neuter, singular or plural, as the identity of the person or persons may require.

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DATED effective as of January 1, 2004.

MANAGER:

/s/ Kenneth M. Woolley
Kenneth M. Woolley

MEMBERS:

/s/ Kenneth M. Woolley
Kenneth M. Woolley

/s/ Charles L. Allen
Charles L. Allen

/s/ Dean A. Anderson
Dean A. Anderson

/s/ Timothy Arthurs
Timothy Arthurs

/s/ Kenneth R. Beck
Kenneth R. Beck

K. Bruce Boucher

/s/ Robert L. Burns
Robert L. Burns

Larendee B. Call

/s/ Kent W. Christensen
Kent W. Christensen

Monty J. Conrad

Alex Engel

James Hafen

Russell Brent Hardy

/s/ William E. Hoban
Bill Hoban

KRISPEN FAMILY HOLDINGS, L.C., a Utah limited liability company

By: /s/ Spencer F. Kirk
Name:
Title:

Mark M. Landes

Todd A. Lucas

/s/ Diane Manning
Diane Manning

/s/ James L. Overturf
James L. Overturf

/s/ David L. Rasmussen
David L. Rasmussen

/s/ Brian G. Sheppard
Brian G. Sheppard

SSA VENTURES, L.L.C., a Utah limited liability company

By: /s/ Stephen C. Aldous
Name: Stephen C. Aldous
Title: Manager

/s/ Jim M. Stevens
Jim M. Stevens

/s/ Robert Strandt
Robert Strandt

/s/ Peter Scott Stubbs
Peter Scott Stubbs

Richard S. Tanner

Ann Maureen King, as Trustee of the Ann Maureen King Trust dated June 26, 1998

Kenneth M. High, as Trustee of the High Family Trust dated December 31, 2000

Sandra J. High, as Trustee of the High Family Trust dated December 31, 2000

THE KIRK 101 TRUST

By:
David R. Spafford, Trustee

By: /s/ Stephen C. Aldous, Trustee
Stephen C. Aldous, Trustee

Thomas P. Pecht, as Trustee of the Pecht Family Trust dated April 11, 1997

Karen M. Pecht, as Trustee of the Pecht Family Trust dated April 11, 1997

THE SFKC KIRK CHARITABLE REMAINDER TRUST

By:
Leland S. McCullough, Trustee

By:
David R. Spafford, Trustee

Robert C. Weiss, in his capacity as Trustee of the Weiss Trust dated August 2, 1996

Gwynneth F. Weiss, in her capacity as Trustee of the Weiss Trust dated August 2, 1996

/s/ Kenneth T. Woolley
Kenneth T. Woolley

EXHIBIT B

SECOND AMENDED AND RESTATED OPERATING AGREEMENT
OF
EXTRA SPACE DEVELOPMENT, LLC

SECOND AMENDED AND RESTATED OPERATING AGREEMENT
FOR
EXTRA SPACE DEVELOPMENT, LLC

THIS SECOND AMENDED AND RESTATED OPERATING AGREEMENT (this "Agreement") is made as of December 31, 2007 (the "Effective Date") by and between KENT W. CHRISTENSEN and CHARLES L. ALLEN, as the Managers, and EXTRA SPACE STORAGE LLC (referred to as the "Member"), with reference to the following facts:

A. Extra Space Development, LLC ("Company") a limited liability company organized under the laws of the State of Utah, has previously filed Articles of Organization (the "Articles"), with the Utah Secretary of State.

B. The Member has entered into a Subscription Agreement of even date herewith, whereby Member has acquired membership interests in the Company.

C. By operation of a Membership Interest Redemption Agreement, Member is now the sole member of the Company.

D. The Member desires to adopt and approve a Second Amended and Restated Operating Agreement for the Company under the Revised Utah Limited Liability Company Act as currently or hereinafter in effect in the State of Utah (the "Act").

NOW, THEREFORE, the Member by this Agreement sets forth the Operating Agreement for the Company upon the terms and subject to the conditions of this Agreement.

ARTICLE I
ORGANIZATIONAL MATTERS

1.1 Name. The name of the company shall be "Extra Space Development, LLC." The Company may conduct business under that name or any other name approved by the Member.

1.2 Term. This Agreement shall be effective from the date of the adoption of this Agreement by all of the Members and the term of this Agreement shall continue until dissolution of the Company as hereinafter provided.

1.3 Office and Agent. The Company shall continuously maintain an office and registered agent in the State of Utah as required by the Act. At the time of its formation, the registered office and registered agent of the Company in the State of Utah is Extra Space Storage LLC of2795 E, Cottonwood Parkway, #400, Salt Lake City, Utah 84121 Attn: David L. Rasmussen. In addition, the Company shall maintain its principal office at 2795 E. Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121, or at such other place as the Manager(s) may determine. The registered office, registered agent and principal office of the Company may be changed at any time and from time to time by the Manager(s).

1.4 Business of the Company. The Company shall not engage in any business other than the following without the consent of all of the Members:

(a) The purpose of the Company is to engage in any other lawful activity for which a limited liability company may be organized under the Act; and

(b) Such other activities directly related to the foregoing activities as may be necessary or advisable in the reasonable opinion of the Manager to further such business.

ARTICLE II
CAPITAL CONTRIBUTIONS

2.1 Capital Contributions. The Member shall make a contribution to the capital of the Company in the amount shown opposite the Member's name on Exhibit "A" attached hereto. No Member shall be required to make any additional contributions to the capital of the Company. Additional contributions to the capital of the Company shall be made only with the unanimous consent of the Manager and the Member. Except as provided in this Agreement, no Member may withdraw his or her capital contribution.

2.2 Capital Accounts. The Company shall establish an individual capital account ("Capital Account") for each Member. The Company shall determine and maintain each Capital Account in accordance with Treasury Regulations Section 1.704-1 (b)(2)(iv).

2.3 No Interest. The Company shall not pay any interest on capital contributions.

ARTICLE III
MEMBERS

3.1 Member. The liability of the Member shall be limited as provided in the Act, which generally provides that no Member is personally liable for the debts, obligations, or liabilities of the Company.

3.2 Admission of Additional Members. Additional Members may be admitted with the approval of all Members. Additional Members will participate in the "Net Profits," "Net Losses" (as such terms are defined in Section 5.1), and distributions of the Company on such terms as are determined by the Members. Exhibit "A" shall be amended upon the admission of an additional Member to set forth such Member's name and capital contribution.

3.3 Member Services: Reimbursement of Expenses. Unless otherwise specifically agreed among the Members, no Member shall receive any payment or compensation for performance of obligations under this Agreement. Subject to reasonable regulations adopted by the Manager, the Company shall reimburse Members for all reasonable direct out-of-pocket expenses incurred by them at the request of the Company.

ARTICLE IV
MANAGEMENT AND CONTROL OF THE COMPANY

4.1 Manager to Manage Business.

(a) The business of the Company shall be conducted under the exclusive management of a manager or managers (the "Manager") elected by the Members. The initial Managers shall be Kent W. Christensen and Charles L. Allen. At all times when there is more than one Manager for the Company, each Manager shall have full power and authority to act on behalf of the Company and to bind the Company

thereby, without the approval of any other Manager, except as otherwise prohibited by other provisions of this Agreement.

(b) The Manager shall act on behalf of the Company. The Manager may, but need not, act at meetings.

4.2 Powers of Managers. The Manager is authorized on the Company's behalf to make all decisions as to: (i) management of all or any part of the Company's assets and business; (ii) borrowing money (including borrowing from Members), and the granting of security interests in the Company's assets; (iii) prepayment, refinancing, or extension of any indebtedness of the Company for borrowed money; (iv) compromise or release of any of the Company's claims or debts; and (v) employment of persons, firms, or corporations for the operation and management of the Company's business.

In the exercise of the Manager's management powers, the Manager is authorized to execute and deliver on behalf of the Company and in its name: (i) contracts, conveyances, assignments, leases, subleases, franchise agreements, licensing agreements, management contracts, and maintenance contracts covering or affecting the Company's business and assets; (ii) checks, drafts, and other orders for the payment of the Company's funds; (iii) promissory notes, mortgages, deeds of trust, security agreements, and other similar documents; and (iv) other instruments of any kind or character relating to the Company's affairs, whether like or unlike the foregoing.

4.3 Election of Managers.

(a) The Company shall initially have two (2) Managers. The number of Managers of the Company shall be fixed from time to time by the affirmative vote or written consent of a majority of the Membership Interests, provided that in no instance shall there be less than one Manager and provided further that if the number of Managers is reduced from more than one to one, the Articles shall be amended to so state, and if the number of Managers is increased to more than one, the Articles shall be amended to delete the statement that the Company has only one Manager. Unless he or she resigns or is removed, each Manager shall hold office until a successor shall have been elected and qualified. Managers shall be elected by the affirmative vote or written consent of Members holding a majority of the Membership Interests. A Manager need not be a Member, an individual, a resident of the State of Utah, or a citizen of the United States.

(b) Any Manager may resign at any time by giving written notice to the Members and remaining Manager, if any, without prejudice to the rights, if any, of the Company under any contract to which the Manager is a party. The resignation of any Manager shall take effect upon receipt of that notice or at such later time as shall be specified in the notice. Unless otherwise specified in the notice, the acceptance of the resignation shall not be necessary to make it effective. The resignation of a Manager who is also a Member shall not affect the Manager's rights as a Member and shall not constitute a withdrawal of a Member.

(c) Any Manager may be removed at any time, with cause, by the affirmative vote of a majority of the Membership Interest at a meeting called expressly for that purpose, or by the written consent of a majority of the Membership Interest. Any removal shall be without prejudice to the rights, if any, of the Manager under any employment contract and, if the Manager is also a Member, shall not affect the Manager's rights as a Member or constitute a withdrawal of a Member. For purposes of this Section, "cause" shall mean fraud, gross negligence, willful misconduct, embezzlement or a breach of such Manager's obligations under this Agreement or any employment contract with the Company.

(d) Any vacancy occurring for any reason in the number of Managers may be filled by the affirmative vote or written consent of a majority of the Membership Interest.

4.4 Time Devoted to Business. The Manager shall devote such time to the business of the Company as he in his discretion deems necessary for the efficient operation of the Company's business. The Manager and any person or entity controlled by, controlling or under common control with the Manager (each such person or entity is defined as an "Affiliate") may engage or invest in any activity, including, without limitation, those that might be in direct or indirect competition with the Company. Neither the Company nor any Manager shall have any right in or to such other activities or to the income or proceeds derived therefrom.

4.5 Information Relating to Company. On request, the Manager shall supply to any Member information regarding the Company or its activities. Each Member or authorized representative of a Member shall have access to and may inspect and copy all books, records, and materials in the Manager's possession regarding the Company or its activities. The exercise of the rights contained in this Section shall be at the requesting Member's expense.

4.6 Exculpation. Any act or omission of the Manager, the effect of which may cause or result in loss or damage to the Company or the Members if done in good faith to promote the best interests of the Company, shall not subject the Manager to any liability to the Members.

4.7 Management Fee: Reimbursement of Expenses. The Company shall pay the Manager a management fee and no Manager shall be prevented from receiving any fee because the Manager is also a Member. In addition, the Company shall pay the Manager or Affiliates of the Manager for services rendered or goods provided to the Company. The Company shall reimburse the Manager for all reasonable direct out-of-pocket expenses incurred by him or his Affiliates in managing the Company.

ARTICLE V
ALLOCATIONS OF NET PROFITS AND NET LOSSES AND DISTRIBUTIONS

5.1 Definitions. When used in this Agreement, the following terms shall have the meanings set forth below.

(a) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, the provisions of succeeding law, and to the extent applicable, the Treasury Regulations.

(b) "Company Minimum Gain" shall have the meaning ascribed to the term "Partnership Minimum Gain" in the Treasury Regulations Section l.704-2(d).

(c) "Member Nonrecourse Debt" shall have the meaning ascribed to the term "Partner Nonrecourse Debt" in Treasury regulations Section 1.704-2(b)(4).

(d) "Member Nonrecourse Deductions" shall mean items of Company loss, deduction, or Code Section 705(a)(2)(B) expenditures which are attributable to Member Nonrecourse Debt.

(e) "Net Profits" and "Net Losses" shall mean the income, gain, loss, deductions, and credits of the Company in the Aggregate or separately stated, as appropriate, determined in accordance with the method of accounting at the close of each fiscal year employed on the Company's information tax return filed for federal income tax purposes.

(f) "Nonrecourse Liability" shall have the meaning set forth in Treasury Regulations Section 1.752-l(a)(2).

(g) "Treasury Regulations" shall mean the final or temporary regulations that have been issued by the U.S. Department of Treasury pursuant to its authority under the Code, and any successor regulations.

5.2 Allocations of Net Profit and Net Loss.

(a) Net Loss. Net Loss shall be allocated to the Members in proportion to their Membership Interest. Notwithstanding the previous sentence, loss allocations to a Member shall be made only to the extent that such loss allocations will not create a deficit Capital Account balance for that Member in excess of an amount, if any, equal to such Member's share of Company Minimum Gain that would be realized on a foreclosure of the Company's property. Any loss not allocated to a Member because of the foregoing provision shall be allocated to the other Members (to the extent the other Members are not limited in respect of the allocation of losses under this Section 5.2(a)). Any loss reallocated under this Section 5.2(a) shall be taken into account in computing subsequent allocations of income and losses pursuant to this Article V, so that the net amount of any item so allocated and the income and losses allocated to each Member pursuant to this Article V, to the extent possible, shall be equal to the net amount that would have been allocated to each such Member pursuant to this Article V if no reallocation of losses had occurred under this Section 5.2(a).

(b) Net Profit. Net Profit shall be allocated to the Members in proportion to their Membership Interests.

5.3 Code Section 704(c) Allocations. Notwithstanding any other provision in this Article V, in accordance with Code Section 70-4(c) and the Treasury Regulations promulgated thereunder, income, gain, loss, and deduction with respect to any property contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its fair market value on the date of contribution. Allocations pursuant to this Section 5.4 are solely for purposes of federal, state and local taxes. As such, they shall not affect or in any way be taken into account in computing a Member's Capital Account or share of profits, losses, or other items of distributions pursuant to any provision of this Agreement.

(a) Distribution of Assets by the Company. Subject to applicable law and any limitations contained elsewhere in this Agreement, Members holding at least a majority of the Membership Interests may elect from time to time to cause the Company to make distributions. Distributions shall be first to the Members in proportion to their unreturned capital contributions until each Member has recovered his or her capital contributions, and then to the Members in proportion to their Membership Interests.

ARTICLE VI
CONSEQUENCES OF DISSOLUTION EVENTS AND
TERMINATION OF MEMBERSHIP INTEREST

6.1 Dissolution Event. Upon the occurrence of the death, withdrawal, resignation, retirement, insanity or dissolution of any Member ("Dissolution Event"), the Company shall dissolve unless all of the remaining Members ("Remaining Members") consent within ninety (90) days of the Dissolution Event to the continuation of the business of the Company. If the Remaining Members so consent, the Company and/or the Remaining Members shall have the right to purchase, and if such right is exercised, the Member (or his or her legal representative or estate) whose actions or conduct resulted in the Dissolution Event ("Former Member") shall sell, the Former Member's Membership Interest ("Former Member's Interest") as provided in this Article.

6.2 Withdrawal. Notwithstanding Section 6.1, upon the withdrawal by a Member such Member shall be treated as a Former Member, and, unless the Company dissolves as a result of such withdrawal, the Company and/or the Remaining Members shall have the right to purchase, and if such right is exercised, the Former Member shall sell, the Former Member's Interest as provided in this Article.

6.3 Purchase Price. The purchase price for the Former Member's Interest shall be the fair market value of the Former Members Interest as determined by an independent appraiser jointly selected by the Former Member and by Remaining Members holding a majority of the remaining Membership Interests. The Company and the Former Member shall each pay one-half of the cost of the appraisal. Notwithstanding the foregoing, the Dissolution Event results from a breach of this Agreement by the Former Member, the purchase price shall be reduced by an amount equal to the damages suffered by the Company or the Remaining Members as a result of such breach.

6.4 Notice of Intent to Purchase. Within thirty (30) days after the fair market value of the Former Member's Interest has been determined in accordance with Section 6.3, each Remaining Member shall notify the Members in writing of his or her desire to purchase a portion of the Former Member's Interest. The failure of any Remaining Member to submit a notice within the applicable period shall constitute an election on the part of the Member not to purchase any of the Former Member's Interest. Each Remaining Member so electing to purchase shall be entitled to purchase a portion of the Former Member's Interest in the same proportion that the Membership Interest of the Remaining Member bears to the aggregate of the Membership Interests of all of the Remaining Members electing to purchase the Former Member's Interest.

6.5 Election to Purchase Less Than All of the Former Member's Interest. If any Remaining Member elects to purchase none or less than all of his or her pro rata share of the Former Member's Interest, then the Remaining Members can elect to purchase more than their pro rata share. If the Remaining Members fail to purchase the entire interest of the Former Member, the Company may purchase any remaining share of the Former Member's Interest.

6.6 Payment of Purchase Price. The Company or the Remaining Members, as the case may be, shall pay at the closing one-fifth (1/5) of the purchase price and the balance of the purchase price shall be paid in four equal annual principal installments, plus accrued interest, and be payable each year on the anniversary date of the closing. The unpaid principal balance shall accrue interest at the current applicable federal rate as provided in the Code for the month in which the initial payment is made, but the Company and the Remaining Members shall have the right to prepay in full or in part at any time without penalty. The obligation of each purchasing Remaining Member, and the Company, as applicable, to pay its portion of the balance due shall be evidenced by a separate promissory note executed by the respective purchasing Remaining Member or the Company, as applicable. Each such promissory note shall be in an original principal amount equal to the portion owed by the respective purchasing Remaining Member or the company, as applicable. The promissory note executed by each purchasing Remaining Member shall be secured by a pledge of that portion of the Former Member's Interest purchased by such Remaining Member.

6.7 Closing of Purchase of Former Member's Interest. The closing for the sale of a Former Member's Interest pursuant to this Article shall be held at a time and place mutually agreed upon by the parties. At the closing, the Former Member shall deliver to the Company or the Remaining Members an instrument of transfer (containing warranties of title and no encumbrances) conveying the Former Member's Interest. The Former Member, the Company and the Remaining Members shall do all things and execute and deliver all papers as may be reasonably necessary fully to consummate such sale and purchase in accordance with the terms and provisions of this Agreement.

ARTICLE VII
ACCOUNTING, RECORDS, REPORTING BY MEMBERS

7.1 Books and Records. The books and records of the Company shall be kept in accordance with the accounting methods followed for federal income tax purposes.

7.2 Reports. The Company shall cause to be filed, in accordance with the Act, all reports and documents required to be filed with any governmental agency. The Company shall cause to be prepared at least annually information concerning the Company's operations necessary for the completion of the Members' federal and state income tax returns. The Company shall send or cause to be sent to each Member within ninety (90) days after the end of each taxable year (i) such information as is necessary to complete the Members' federal and state income tax or information returns and (ii) a copy of the Company's federal, state and local income tax or information returns for the year.

7.3 Bank Accounts. The Manager shall maintain the funds of the Company in one or more separate bank accounts in the name of the Company, and shall not permit the funds of the Company to be commingled in fashion with the funds of any other person. The Manager, acting alone, is authorized to endorse checks, drafts and other evidences of indebtedness made payable to the order of the Company.

7.4 Tax Matters for the Company. The Manager is designated at “Tax Matters Partner” (as defined in Code Section 6231), to represent the Company (at the Company’s expense) in connection with all examination of the Company’s affairs by tax authorities and to expend Company funds for professional services and costs associated therewith.

ARTICLE VIII
DISSOLUTION AND WINDING UP

8.1 Conditions of Dissolution. The Company shall dissolve upon the occurrence of any of the following events:

(a) Upon the happening of any event of dissolution specified in the Articles;

(b) Upon the entry of a decree of judicial dissolution pursuant to Section 17351 of the Corporations Code;

(e) Upon the vote of Members holding at least a majority of the Membership Interests; or

(d) The sale of all or substantially all of the assets of the Company.

8.2 Winding Up. Upon the dissolution of the Company, the Company’s assets shall be disposed of and its affairs wound up. The Company shall give written notice of the commencement of the dissolution to all of its known creditors.

8.3 Order of Payment of Liabilities Upon Dissolution. After determining that all the known debts and liabilities of the Company have been paid or adequately provided for, the remaining assets shall be distributed to the Members in accordance with their positive capital account balances, after taking into account income and loss allocations for the Company’s taxable year during which liquidation occurs.

8.4 Limitations on Payments Made in Dissolution. Except as otherwise specifically provided in this Agreement, each Member shall be entitled to look only to the assets of the Company for the return of his or

her positive Capital Account balance and shall have no recourse for his or her Capital Contribution and/or share of Net Profits against any other Member except as provided in Article VIII.

8.5 Certificates. The Company shall file with the Utah Secretary of State a Certificate of Dissolution upon the dissolution of the Company and a Certificate of Cancellation upon the completion of the winding up of the Company’s affairs.

ARTICLE IX
INDEMNIFICATION

9.1 Indemnification of Agents. The Company shall indemnify any Manager and Member and may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was a Manager, Member, officer, employee or other agent of the Company or that, being or having been such a Manager, Member, officer, employee or agent, he or she is or was serving at the request of the Company as a manager, director, office, employee or other agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise (all such persons being referred to hereinafter as an “agent”), to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit.

ARTICLE X
INVESTMENT REPRESENTATIONS

Each Member hereby represents and warrants to, and agrees with, the Manager the Members and the Company as follows:

10.1 Pre-existing Relationship or Experience. He or she has a pre-existing personal or business relationship with the Company or one or more of its officers or controlling persons, or by reason of his or her business or financial experience, or by reason of the business or financial experience of his or her financial advisor who is unaffiliated with and who is not compensated, directly or indirectly, by the Company or any affiliate or selling agent of the Company, he or she is capable of evaluating the risks and merits of an investment in the Company and of protecting his or her own interests in connection with this investment.

10.2 No Advertising. He or she has not seen, received, been presented with, or been solicited by any leaflet, public promotional meeting, article or any other form of advertising or genera! solicitation with respect to the sale of the Membership Interest.

10.3 Investment Intent. He or she is acquiring the Membership Interest for investment purposes for his or her own account only and not with a view to or for sale in connection with any distribution of all or any part of the Membership Interest. No other person will have any direct or indirect beneficial interest in or right to the Membership Interest.

ARTICLE XI
MISCELLANEOUS

11.l Complete Agreement. This Agreement and the Articles constitute the complete and exclusive statement of agreement among the Members with respect to the subject matter herein and therein and replace and supersede all prior written and oral agreements among the Members. To the extent that any provision of the Articles conflict with any provision of this Agreement, the Articles shall control.

11.2 Binding Effect. Subject to the provision of this Agreement relating to transferability, this Agreement will be binding upon and inure to the benefit of the Members, and their respective successors and assigns.

11.3 Interpretation. All pronouns shall be deemed to refer to the masculine, feminine, or neuter, singular or plural, as the context in which they are used may required. All headings herein are inserted only for convenience and ease of reference and are not to be considered in the interpretation of any provision of this Agreement. Numbered or lettered articles, sections and subsections herein contained refer to articles, sections and subsections of this Agreement unless otherwise expressly stated. In the event any claim is made by any Member relating to any conflict, omission or ambiguity in this Agreement, no presumption or burden of proof or persuasion shall be implied by virtue of the fact that this Agreement was prepared by or at the request of a particular Member or his or her counsel.

11.4 Jurisdiction. Each Member hereby consents to the exclusive jurisdiction of the state and federal courts sitting in Utah in any action on a claim arising out of, under or in connection with this Agreement or the transactions contemplated by this Agreement. Each Member further agrees that personal jurisdiction over him or her may be effected by service of process by registered or certified mail addressed as provided in Section 11.6, and that when so made shall be as if served upon him or her personally within the State of Utah.

11.5 Severability. If any provision of this Agreement or the application of such provision to any person or circumstance shall be held invalid, the remainder of this Agreement or the application of such provision to persons or circumstances other than those to which it is held invalid shall not be affected thereby.

11.6 Notices. Any notice to be given or to be served upon the Company or any party hereto in connection with this Agreement must be in writing (which may include facsimile) and will be deemed to have been given and received when delivered to the address specified by the party to receive notice. Such notices will be given to a Member at the address specified in Exhibit "A" hereto. Any party may, at any time by given five days' prior written notice to the other Members, designate any other address in substitution of the foregoing address to which such notice will be given.

11.7 Amendments. All amendments to this Agreement will be in writing and signed by all of the Members.

11.8 Multiple Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

11.9 Attorney Fees. In the event that any dispute between the Company and the Members or among the Members should result in litigation or arbitration, the prevailing party in such dispute shall be entitled to recover from the other party all reasonable fees, costs and expenses of enforcing any right of the prevailing party, including without limitation, reasonable attorneys' fees and expenses, all for which shall be deemed to have accrued upon the commencement of such action and shall be paid whether or not such action is prosecuted to judgment. Any judgment or order entered in such action shall contain a specific provision providing for the recovery of attorney fees and costs incurred in enforcing such judgment and an award of prejudgment interest from the date of the breach at the maximum rate allowed by law. For the purposes of this Section: (a) attorney fees shall include, without limitation, fees incurred in the following: (1) post judgment motions; (2) contempt proceedings; (3) garnishment, levy, and debtor and third party examinations; (4) discovery; and (5) bankruptcy litigation and (b) prevailing party shall mean the party who is determined in the proceeding to have prevailed or who prevails by dismissal, default or otherwise.

11.10 Remedies Cumulative. The remedies under this Agreement are cumulative and shall not exclude any other remedies to which any person may be lawfully entitled.

11.11 Qualification in Other States. In the event that the business of the Company is conducted in states in addition to the State of Utah, then the Members agree that this Company shall exist under the laws of each state in which such business is actually conducted to the extent that it is necessary in order to do business in such state but that otherwise the laws of the State of Utah shall govern this Company and each Member agrees to execute such other and further documents as may be required in order to qualify the Company to conduct its business in other states. To the extent that business of the Company shall be conducted in another state, the Manager(s) may, in their discretion, designate a principal place of business and other offices in such state or states.

IN WITNESS WHEREOF, the Member and Managers of Extra Space Development, LLC, a Utah limited liability company, have executed this Agreement, effective as of the date written above.

MEMBER:

EXTRA SPACE STORAGE LLC,
a Delaware limited liability company

By: /s/ Kenneth M. Woolley
Its: Manager

MANAGERS:

/s/ Kent W. Christensen
Kent W. Christensen

/s/ Charles L. Allen
Charles L. Allen

EXHIBIT "A"

CAPITAL CONTRIBUTION AND ADDRESSES OF
MEMBERS AS OF THE EFFECTIVE DATE

Member	Capital Contribution	Membership Interest
Extra Space Storage LLC 2795 E. Cottonwood Parkway, Suite 400 Salt Lake City, UT 84121	$	100%

EXHIBIT C

PLAN OF DISSOLUTION
OF
EXTRA SPACE DEVELOPMENT, LLC

PLAN OF DISSOLUTION
OF
EXTRA SPACE DEVELOPMENT, LLC

This Plan of Dissolution of Extra Space Development, LLC, a Utah limited liability company ("Company"), is made pursuant to the Amended and Restate Operating Agreement for the Company, dated as of January 1, 2004.

WHEREAS, the manager of the Company, Kenneth M. Woolley, and the undersigned holders of a majority-in-interest of the Percentage Interests of the Company have determined that it is in the best interests of the Company and its members for the Company to sell all of its assets and to wind up its affairs and dissolve;

WHEREAS, the Company has negotiated an agreement with Extra Space Storage, Inc and its subsidiaries for the purchase of all of the Company assets, with provision for the payment of Company liabilities and a reserve for the expenses of winding up it affairs.

IT IS RESOLVED, that the Company be dissolved and wind up its affairs in accordance with the following ("Plan"):

1. Enter into an agreement to sell all of the Company's interest in its property owning entities (subsidiaries and all joint venture interests) to Extra Space Storage LLC, for the sum of $21,486,446.75 (which reflects the agreed upon real estate values of the Company properties, less existing property level debts, less a reduction for the interests of the Company's joint venture partners, adjusted for the actual net results of operation thru 11/30/07 per the Company balance sheet, and further adjusted for the estimated results of operations from 11/30/07 through 12/31/07).

2. Pay in full the Company obligations on its line of credit from Zions First National Bank in the approximate amount of $9,055,000.

3. Retain a reserve of approximately $357,000 in cash and receivables, for winding up expenses and for known and contingent liabilities and retained by the Company.

4. Accept a Subscription Agreement from Extra Space Storage LLC for a membership interest in the Company, in exchange for payment equal to the $357,000 in retained reserves.

5. Distribute all remaining net proceeds of sale and all other cash, in the approximate amount of $8,793,000, to its current members in proportion to their Percentage Interests and in complete redemption of their respective membership interests in the Company.

6. Authorize Kenneth M. Woolley as manager to conduct and wind up the final affairs of the Company, including preparation of a final accounting and tax returns, and application of the reserves to the liabilities of the Company (which will then be a wholly-owned

subsidiary of Extra Space Storage LLC, with the reserved funds and any contingent assets and liabilities which may remain isolated in the Company).

THE FOREGOING PLAN IS HEREBY APPROVED THIS December, 24 2007.

MANAGER	MEMBERS [majority-in-interest]
/s/ Kenneth M. Woolley	/s/ Kenneth M. Woolley
Kenneth M. Woolley	Kenneth M. Woolley 32.6300419%
	Krispen Family Holdings, L.C.
	By: /s/ Spencer F. Kirk Its: MANAGER 20.1946641%

Exhibit 21.1

Name	**Jurisdiction of Formation/Incorporation**
Extra Space Storage LP	Delaware

The list above excludes consolidated wholly-owned subsidiaries carrying on the same line of business (the ownership and operation of commercial real estate). The list also excludes other subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2007. A total of 198 subsidiaries have been excluded, each of which operates in the United States [other than one subsidiary which operates in Bermuda].

QuickLinks

Exhibit 21.1

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the:

Registration Statement (Form S-8 No. 333-126742) pertaining to the 2004 Non-Employee Directors' Share Plan and 2004 Long Term Incentive Compensation Plan of Extra Space Storage, Inc., and

Registration Statements and related prospectus' (Forms S-3: No. 333-128504, 333-128970, 333-128988, 333-133407, and 333-142816) of Extra Space Storage, Inc.

of our reports dated February 28, 2008, with respect to the consolidated financial statements and schedule of Extra Space Storage, Inc., and the effectiveness of internal control over financial reporting of Extra Space Storage, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 28, 2008

QuickLinks

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13A-15 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth M. Woolley, certify that:

1) I have reviewed this annual report on Form 10-K of Extra Space Storage Inc.;

2) Based on my knowledge, this annual 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 annual 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 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: February 29, 2008

By:	/s/ KENNETH M. WOOLLEY
Name:	Kenneth M. Woolley
Title:	Chairman of the Board and Chief Executive Office

QuickLinks

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13A-15 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kent W. Christensen, certify that:

1) I have reviewed this annual report on Form 10-K of Extra Space Storage Inc.;

2) Based on my knowledge, this annual 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 annual 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 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: February 29, 2008

By:	/s/ KENT W. CHRISTENSEN
Name:	Kent W. Christensen
Title:	Executive Vice President and Chief Financial Officer

Exhibit 32

**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**

I, Kenneth M. Woolley, Chief Executive Officer of Extra Space Storage Inc. (the "Company"), hereby certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of the Company on Form 10-K for the year ended December 31, 2007 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

	By:	/s/ KENNETH M. WOOLLEY
	Name:	Kenneth M. Woolley
Dated: February 29, 2008	Title:	Chairman of the Board and Chief Executive Officer

I, Kent W. Christensen, the Chief Financial Officer of the Company, hereby certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of the Company on Form 10-K for the year ended December 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Form 10-K fairly presents in all material respects the financial condition and results of operations of the Company.

	By:	/s/ KENT W. CHRISTENSEN
	Name:	Kent W. Christensen
Dated: February 29, 2008	Title:	Executive Vice President and Chief Financial Officer