Extra Space Storage Inc.
Form 10-K
February 26, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

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	**20-1076777**
(State or other jurisdiction of incorporation or organization)	(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, $0.01 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 ý 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 ý

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 ý No o

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

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

Large accelerated filer ý	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 ý.

The aggregate market value of the common stock held by non-affiliates of the registrant was $656,132,638 based upon the closing price on the New York Stock Exchange on June 30, 2009, 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, $0.01 par value per share, as of February 12, 2010 was 86,723,391.

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 2010 are incorporated by reference into Part III of this Annual Report on Form 10-K.

EXTRA SPACE STORAGE INC.

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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 and existing 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;*
- *disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;*
- *delays in the development and construction process, which could adversely affect our profitability;*
- *economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan; and*
- *our ability to attract and retain qualified personnel and management members.*

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, manage, 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, 2009, we held ownership interests in 642 operating properties. Of these 642 operating properties, 290 are wholly-owned, and 352 are owned in joint-venture partnerships. An additional 124 operating properties are owned by franchisees or third parties and operated by us in exchange for a management fee, bringing the total number of operating properties which we own and/or manage to 766. These operating properties are located in 33 states and Washington, D.C. and contain approximately 55 million square feet of net rentable space in approximately 500,000 units and currently serve a customer base of over 350,000 tenants.

We operate in three distinct segments: (1) property management, acquisition and development; (2) rental operations; and (3) tenant reinsurance. Our property management, acquisition and development activities include managing, acquiring, developing and selling self-storage facilities. On June 2, 2009, we announced the wind-down of our development activities. As of December 31, 2009, there were ten development projects remaining to be completed in our development pipeline. Our rental operations activities include the direct and indirect ownership and operation of self-storage facilities. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in the Company's self storage facilities.

Substantially all of our business is conducted through Extra Space Storage LP (the "Operating Partnership"). 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 100 F Street, N.E., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at 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. The senior management team has collectively acquired and/or developed more than 725 properties since 1996 for the Company, the Predecessor and other entities. Our executive management team and their years of industry experience are as follows: Spencer F. Kirk, Chairman and

Chief Executive Officer, 9 years; Kent W. Christensen, Executive Vice President and Chief Financial Officer, 12 years; Charles L. Allen, Executive Vice President and Chief Legal Officer, 12 years, and Karl Haas, Executive Vice President and Chief Operating Officer, 22 years.

On February 2, 2009, we announced that Kenneth M. Woolley, former Chairman and Chief Executive Officer, had accepted an invitation to serve a mission for The Church of Jesus Christ of Latter-day Saints. Mr. Woolley stepped down from his position as Chief Executive Officer beginning April 1, 2009. Our board of directors selected Mr. Kirk to succeed him as Chairman and Chief Executive Officer. The composition of the board of directors remained the same with the exception of the Chairman position which was assumed by Mr. Kirk.

Members of the executive management team have guided the Company through substantial growth, developing and acquiring over $4.0 billion in assets since 1996. This growth has been funded through public 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 approximately 7,035,533 shares or 8.1% of our outstanding common stock as of February 12, 2010.

Industry & Competition

Self-storage facilities refers to properties that offer 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, 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 self-storage properties. 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 Self-Storage Almanac (the

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"Almanac"), in 1999 there were only 29,955 self-storage properties in the United States, with an average occupancy rate of 86.9% of net rentable square feet, compared to 48,721 self-storage properties in 2009 with an average occupancy rate of 76.7% 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. The increased competition 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 likely continue to be a challenge for the Company's growth strategy.

The industry is also characterized by fragmented ownership. According to the Almanac, the top ten self-storage companies in the United States owned approximately 10.8% of total U.S. self-storage properties, and the top 50 self-storage companies owned approximately 14.9% of the total U.S. properties as of December 31, 2009. 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 historical reputation for closing deals.

We are the second largest self-storage operator in the United States. We are one of four public self-storage REITs along with Public Storage Inc., Sovran Self-Storage, Inc., and U-Store-It Inc.

Long-Term 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.

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

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

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Financing of Our Long-Term 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, 2009, the Credit Line had asset collateralizing capacity of $100.0 million of which $100.0 million was drawn. On February 13, 2009, we entered into a $50.0 million revolving secured line of credit (the "Secondary Credit Line" and together with the Credit Line, collectively the "Credit Lines") that is collateralized by certain of our self-storage properties. As of December 31, 2009, the Secondary Credit Line had asset collateralizing capacity of approximately $50.0 million of which $0 was drawn. We expect to maintain a flexible approach in financing new property acquisitions. We plan to finance future acquisitions and development through a combination of cash, borrowings under the Credit Lines, traditional secured mortgage financing, joint ventures and additional equity offerings.

Joint Venture Financing

We own 336 of our stabilized properties and 16 of our 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 and the Company 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 and the Company 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 12, 2010, we had 2,001 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

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, funds from operations ("FFO"), cash flow, financial condition, ability to make cash 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;

- the continuation or worsening of the current economic environment;

- local or regional real estate market conditions such as competing properties, 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;

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- increased operating costs, including the need for capital improvements, insurance premiums, real estate taxes and utilities;
- 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.

Recent U.S. and international market and economic conditions have been unprecedented and challenging, with tighter credit conditions and slower growth through the third and fourth quarters of 2008 and all of 2009. For the year ended December 31, 2009, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit and other macro-economic factors have contributed to increased market volatility and diminished expectations for the global economy and increased market uncertainty and instability. Continued turbulence in U.S. and international markets may adversely affect our liquidity and financial condition, and the financial condition of our customers. If these market conditions continue, they may result in an adverse effect on our financial condition and results of operations.

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 adversely affect our revenues and impede our growth.

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 1,684 field personnel as of February 12, 2010 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.

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. 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 significant amounts 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, FFO, cash flow, financial condition, ability to pay or refinance our debt obligations, ability to make cash 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.

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.

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 cash distributions to our stockholders could be adversely affected.

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.

To the extent that we engage in development and redevelopment activities, we 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 rely on the investments of our joint venture partners for funding certain of 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 face 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 would 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.

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

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 liabilities without any recourse, or with only limited recourse, with respect to unknown liabilities 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 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.

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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 members of our executive management team. Our executive management team has substantial experience in the self-storage industry. In addition, our ability to develop properties in the future 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 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, we agreed to make available to each of Kenneth M. Woolley, a director and our former 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 units in our Operating Partnership ("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. Similar tax protections were provided to third party contributors in connection with property contributions to the Operating Partnership subsequent to the IPO. 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 levels 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, 2009, we held interests in 352 operating properties through joint ventures. Some 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.

Spencer F. Kirk, Chairman and Chief Executive Officer, Kent W. Christensen, Executive Vice President and Chief Financial Officer, Charles L. Allen, Executive Vice President and Chief Legal Officer, and other 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.

Spencer F. Kirk, our Chairman and Chief Executive Officer, as well as 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. These outside business interests could interfere with their ability to devote time to our business and affairs 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

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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.

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

Spencer F. Kirk, Chairman and Chief Executive Officer, Kent W. Christensen, Executive Vice President and Chief Financial Officer, Charles L. Allen, Executive Vice President and Chief Legal Officer, and other members of our senior management team, and Kenneth M. Woolley, Director, 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. 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 and operation of self-storage properties.

Our current strategy is to own, operate, manage, acquire, develop and redevelop 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.

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.

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.

Risks Related to Our Debt Financings

Disruptions in the financial markets could affect our ability to obtain debt financing on reasonable terms and have other adverse effects on us.

The United States credit markets are experiencing significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen. 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 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

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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, which could cause our stock price to decline.

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, 2009, we had approximately $1.4 billion of outstanding indebtedness. We may incur additional debt in connection with future acquisitions and development. We may borrow under our Credit Lines or borrow new funds to finance 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 in order to make cash distributions to maintain our qualification as a REIT or to make our expected distributions.

If we are required to utilize our Credit Lines 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 to continue to make 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 cash 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 default on our obligations and the lenders or mortgages may enforce our guarantees;

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.

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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 cash distributions and/or to continue to make cash distributions 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 cash distributions to our stockholders.

As of December 31, 2009, we had approximately $1.4 billion of debt outstanding, of which approximately $304.1 million or 21.6% was subject to variable interest rates. This variable rate debt had a weighted average interest rate of approximately 3.3% 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 cash 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 $3.0 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 cash distributions to our stockholders.

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. While historically we have satisfied these distribution requirements by making cash distributions to our shareholders, a REIT is permitted to satisfy these requirements by making distributions of cash or other property, including, in limited circumstances, its own stock. For distributions with respect to taxable years ending on or before December 31, 2011, recent Internal Revenue Service guidance allows us to satisfy up to 90% of the distribution requirements discussed above through the distribution of shares of our stock, if certain conditions are met. Assuming we continue to satisfy these distributions requirements with cash, 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.

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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 most of 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

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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.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2009, we owned or had ownership interests in 642 operating self-storage properties. Of these properties, 290 are wholly-owned and 352 are held in joint ventures. In addition, we managed an additional 124 properties for franchisees or third parties bringing the total number of properties which we own and/or manage to 766. These properties are located in 33 states and Washington, D.C. 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, 2009, we own and/or manage approximately 55 million square feet of rentable space configured in approximately 500,000 separate storage units. Approximately 70% of our properties are clustered around large population centers, such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These 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. Our acquisitions have given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.

We consider a property to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. We consider a property to be stabilized once it has achieved either an 80% occupancy rate for a full year measured as of January 1, or has been open for three years.

As of December 31, 2009, over 350,000 tenants were leasing storage units at the 766 operating properties that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as 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, 2009, the median length of stay was approximately eleven months. The average annual rent per square foot at these stabilized properties was $13.46 at December 31, 2009 compared to $14.21 at December 31, 2008.

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, 2009 and 2008. The information as of December 31, 2008 is on a pro forma basis as though all the properties owned at December 31, 2009 were under our control as of December 31, 2008.

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Stabilized Property Data Based on Location

Location	Number of Properties	Company Number of Units as of December 31, 2009(1)	Pro forma Number of Units as of December 31, 2008	Company Net Rentable Square Feet as of December 31, 2009(2)	Pro forma Net Rentable Square Feet as of December 31, 2008	Company Square Foot Occupancy % December 31, 2009	Pro forma Square Foot Occupancy % December 31, 2008
Wholly-owned properties							
Alabama	1	587	582	77,600	76,260	79.4%	78.6%
Arizona	5	2,818	2,844	346,998	347,238	83.6%	80.4%
California	46	36,877	37,001	3,647,805	3,630,797	81.9%	82.2%
Colorado	8	3,790	3,803	476,484	476,409	84.4%	82.7%
Connecticut	3	2,023	2,028	178,040	178,115	78.9%	75.5%
Florida	31	20,490	20,571	2,184,586	2,186,056	81.9%	80.8%
Georgia	12	6,425	6,433	836,922	837,292	82.1%	82.5%
Hawaii	2	2,858	2,862	145,816	151,445	80.4%	78.8%
Illinois	5	3,320	3,263	341,724	339,844	79.9%	79.9%
Indiana	6	3,477	3,525	412,759	415,156	82.3%	84.4%
Kansas	1	507	506	50,190	49,940	82.2%	87.1%
Kentucky	3	1,578	1,583	194,051	194,220	88.9%	84.2%
Louisiana	2	1,412	1,408	150,335	148,915	81.8%	87.0%
Maryland	10	7,936	7,948	847,577	846,979	86.0%	81.1%
Massachusetts	26	15,241	15,276	1,569,495	1,573,680	83.3%	81.4%
Michigan	2	1,026	1,021	135,026	132,410	85.7%	86.3%
Missouri	6	3,141	3,159	374,292	374,587	82.4%	80.0%
Nevada	2	1,239	1,250	132,015	132,215	83.0%	87.0%
New Hampshire	2	1,006	1,006	125,473	125,909	88.2%	84.7%
New Jersey	23	18,801	18,860	1,834,626	1,838,021	84.7%	82.6%
New Mexico	1	541	541	71,555	69,030	78.7%	83.9%
New York	10	8,423	8,690	608,510	610,707	81.3%	79.4%
Ohio	4	2,024	2,032	273,532	274,132	85.9%	85.8%
Oregon	1	767	766	103,150	103,530	84.7%	79.4%
Pennsylvania	9	6,573	6,570	689,768	685,255	86.6%	81.5%
Rhode Island	1	722	730	75,521	75,521	81.3%	89.0%
South Carolina	3	1,553	1,554	178,749	178,719	83.4%	83.1%
Tennessee	6	3,694	3,492	488,334	474,047	79.9%	82.8%
Texas	20	12,378	12,423	1,403,414	1,402,493	85.0%	84.7%
Utah	3	1,543	1,540	210,749	210,876	80.7%	84.4%
Virginia	5	3,561	3,581	346,862	346,907	82.5%	84.5%
Washington	4	2,548	2,548	308,015	307,025	90.6%	84.4%
Total Wholly-Owned Stabilized	**263**	**178,879**	**179,396**	**18,819,973**	**18,793,730**	**83.2%**	**82.2%**

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Location	Number of Properties	Company Number of Units as of December 31, 2009(1)	Pro forma Number of Units as of December 31, 2008	Company Net Rentable Square Feet as of December 31, 2009(2)	Pro forma Net Rentable Square Feet as of December 31, 2008	Company Square Foot Occupancy % December 31, 2009	Pro forma Square Foot Occupancy % December 31, 2008
Joint-venture properties							
Alabama	3	1,705	1,709	205,638	205,883	82.5%	84.9%
Arizona	11	6,829	6,861	751,889	751,364	82.6%	84.2%
California	77	55,187	55,140	5,634,040	5,636,931	84.2%	85.0%
Colorado	2	1,325	1,334	158,583	158,413	82.7%	80.6%
Connecticut	8	5,983	5,988	691,406	692,320	82.8%	78.8%
Delaware	1	584	588	71,680	71,655	92.2%	82.9%
Florida	23	19,079	19,238	1,937,868	1,938,511	81.4%	80.2%
Georgia	3	1,871	1,885	245,520	246,926	80.1%	77.1%
Illinois	7	4,661	4,670	503,416	503,316	83.3%	84.1%
Indiana	7	2,769	2,769	366,173	365,803	86.4%	80.9%
Kansas	3	1,211	1,214	160,060	161,240	79.1%	79.7%
Kentucky	4	2,268	2,285	268,886	268,434	83.1%	83.7%
Maryland	14	11,055	11,110	1,085,468	1,081,927	84.5%	81.4%
Massachusetts	17	9,252	9,243	1,049,070	1,046,534	81.6%	80.0%
Michigan	10	5,917	5,930	784,683	784,263	81.8%	82.5%
Missouri	2	956	956	118,045	117,795	80.2%	82.9%
Nevada	7	4,615	4,614	619,273	618,998	82.8%	81.8%
New Hampshire	3	1,316	1,317	137,434	137,754	84.2%	84.1%
New Jersey	21	15,656	15,680	1,647,200	1,648,331	83.0%	80.4%
New Mexico	9	4,673	4,691	542,799	538,144	82.9%	81.9%
New York	21	21,638	21,645	1,733,870	1,735,650	86.2%	84.3%
Ohio	11	5,008	5,019	754,447	754,187	79.3%	78.0%
Oregon	2	1,290	1,294	136,290	136,980	84.2%	79.1%
Pennsylvania	10	7,224	7,228	764,860	764,300	85.0%	83.9%
Rhode Island	1	607	607	73,880	73,880	71.5%	73.3%
Tennessee	22	11,753	11,784	1,547,896	1,547,846	82.8%	81.7%
Texas	18	11,697	11,738	1,548,180	1,549,071	83.5%	80.4%
Utah	1	520	519	59,000	59,050	81.7%	83.7%
Virginia	16	11,275	11,282	1,191,293	1,191,543	85.3%	83.6%
Washington	1	546	551	62,730	62,730	86.4%	83.4%
Washington, DC	1	1,536	1,536	102,003	102,003	91.7%	88.5%
Total Stabilized Joint-Ventures	**336**	**230,006**	**230,425**	**24,953,580**	**24,951,782**	**83.4%**	**82.4%**
Managed properties							
Alabama	2	783	825	95,899	95,175	81.2%	80.6%
California	5	3,371	3,366	399,460	399,070	72.2%	72.4%
Colorado	1	339	339	31,629	31,639	87.9%	82.1%
Florida	1	651	650	52,066	51,966	85.2%	84.4%
Georgia	5	2,705	2,726	401,289	406,476	73.3%	72.3%
Illinois	4	2,319	2,328	261,219	263,120	72.4%	69.8%
Indiana	1	502	499	55,425	55,425	67.5%	64.0%
Kansas	3	1,518	1,534	226,120	225,460	71.3%	68.8%
Kentucky	1	532	541	66,000	65,900	76.6%	72.6%
Maryland	12	7,627	7,678	842,865	848,038	74.3%	72.4%
Massachusetts	1	1,168	1,198	108,830	108,880	64.4%	58.2%
Missouri	3	1,532	1,525	305,138	306,333	72.9%	76.4%
Nevada	2	1,576	1,576	170,775	171,555	81.8%	80.3%
New Jersey	5	4,322	4,341	418,450	419,775	81.9%	75.9%
New Mexico	2	1,101	1,106	131,857	131,767	85.0%	81.2%
New York	1	704	703	83,055	77,955	81.5%	81.2%
Ohio	4	1,087	1,095	161,760	162,200	59.3%	57.5%

Pennsylvania	20	8,380	8,379	1,017,521	1,022,897	63.6%	60.8%
Tennessee	2	883	883	131,140	130,385	84.2%	83.6%
Texas	4	2,231	2,244	300,015	301,519	82.7%	85.1%
Utah	1	371	371	46,805	46,905	96.7%	98.1%
Virginia	4	2,767	2,782	274,583	270,202	83.0%	79.0%
Washington, DC	2	1,263	1,255	112,459	111,759	87.2%	82.8%
Total Stabilized Managed Properties	**86**	**47,732**	**47,944**	**5,694,360**	**5,704,401**	**74.2%**	**72.3%**
Total Stabilized Properties	**685**	**456,617**	**457,765**	**49,467,913**	**49,449,913**	**82.3%**	**81.1%**

(1) *Represents unit count as of December 31, 2009, which may differ from December 31, 2008 unit count due to unit conversions or expansions.*

(2) *Represents net rentable square feet as of December 31, 2009, which may differ from December 31, 2008 net rentable square feet due to unit conversions or expansions.*

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The following table sets forth additional information regarding the occupancy of our lease-up properties on a state-by-state basis as of December 31, 2009 and 2008. The information as of December 31, 2008 is on a pro forma basis as though all the properties owned at December 31, 2009 were under our control as of December 31, 2008.

Lease-up Property Data Based on Location

Location	Number of Properties	Company Number of Units as of December 31, 2009(1)	Pro forma Number of Units as of December 31, 2008	Company Net Rentable Square Feet as of December 31, 2009(2)	Pro forma Net Rentable Square Feet as of December 31, 2008	Company Square Foot Occupancy % December 31, 2009	Pro forma Square Foot Occupancy % December 31, 2008
Wholly-owned properties							
California	11	8,029	4,283	867,459	463,433	36.2%	29.4%
Florida	3	2,710	816	260,830	72,345	15.8%	0.0%
Illinois	4	2,689	2,745	276,265	276,315	50.2%	23.9%
Maryland	2	1,394	1,408	149,937	149,758	55.1%	27.0%
Massachusetts	3	2,125	2,067	211,652	215,532	65.2%	58.4%
New Jersey	1	636	633	57,190	57,140	64.3%	27.5%
Oregon	1	744		76,375		7.5%	0.0%
South Carolina	1	622	488	74,657	59,367	85.4%	82.2%
Total Wholly-Owned Lease up	**27**	**19,578**	**13,007**	**2,050,976**	**1,360,554**	**42.0%**	**33.8%**
Joint-venture properties							
California	7	4,860	2,870	531,948	329,192	43.5%	56.9%
Florida	1	894	906	113,485	108,085	53.3%	38.4%
Illinois	4	2,796	2,835	298,605	298,569	70.0%	68.0%
Maryland	1	853	855	71,349	71,349	73.7%	74.4%
New Jersey	2	1,329	712	127,380	60,098	22.6%	0.0%
Rhode Island	1	482	494	55,985	55,805	74.0%	56.1%
Total Lease up Joint-Ventures	**16**	**11,214**	**8,672**	**1,198,752**	**923,098**	**52.0%**	**56.4%**
Managed properties							
Alabama	1	627		77,452		10.6%	0.0%
California	2	1,737	1,594	236,174	189,080	50.9%	49.4%
Colorado	1	508	536	61,070	60,870	78.4%	45.3%
Florida	8	5,449	1,396	508,315	134,751	24.8%	23.5%
Georgia	10	5,388	5,099	764,217	667,413	45.4%	32.6%
Massachusetts	3	2,156	1,590	204,327	151,529	49.9%	46.5%
New Jersey	1	848	860	77,895	77,905	57.4%	45.8%
New York	1	914		46,197		21.9%	0.0%
Pennsylvania	2	1,990	1,994	173,019	174,211	39.8%	27.3%
Tennessee	1	505	510	69,550	68,960	62.1%	45.4%
Utah	1	653		75,451		61.2%	0.0%
Virginia	1	476	480	63,709	63,809	45.0%	22.1%
Total Lease up Managed Properties	**38**	**25,711**	**16,485**	**2,770,935**	**1,802,539**	**40.2%**	**37.6%**
Total Lease up Properties	**81**	**56,503**	**38,164**	**6,020,663**	**4,086,191**	**43.2%**	**40.6%**

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(1)

Represents unit count as of December 31, 2009, which may differ from December 31, 2008 unit count due to unit conversions or expansions.

(2)

Represents net rentable square feet as of December 31, 2009, which may differ from December 31, 2008 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, 2009.

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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 sales price for our common stock as reported by the NYSE and the per share dividends declared:

		Range		Dividends
Year	**Quarter**	**High**	**Low**	**Declared**
2008	1st	17.41	12.33	0.2500
	2nd	17.90	15.08	0.2500
	3rd	17.74	13.67	0.2500
	4th	15.53	5.98	0.2500
2009	1st	10.49	4.93	0.2500
	2nd	9.04	5.36	0.0000
	3rd	11.58	7.38	0.0000
	4th	12.23	9.13	0.1300

On February 12, 2010, the closing price of our common stock as reported by the NYSE was $11.36. At February 12, 2010, we had 268 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.

Information about our equity compensation plans is incorporated by reference in Item 12 of Part III of this annual Report on Form 10-K.

Unregistered Sales of Equity Securities

None.

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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. (Amounts in thousands, except share and per share data.)

	For the Year Ended December 31,				
	2009	2008 (As Revised)	2007 (As Revised)	2006	2005
Revenues:					
Property rental	$ 238,256	$ 235,695	$ 206,315	$ 170,993	$ 120,640
Fees, tenant reinsurance and other income	42,220	37,556	32,551	26,271	14,088
Total revenues	280,476	273,251	238,866	197,264	134,728
Expenses:					
Property operations	88,935	84,522	73,070	62,243	45,963
Tenant reinsurance	5,461	5,066	4,710	2,328	1,023
Unrecovered development and acquisition costs and severance	21,236	1,727	765	269	302
General and administrative	40,554	39,908	36,722	35,600	24,081
Depreciation and amortization	52,403	49,566	39,801	37,172	31,005
Total expenses	208,589	180,789	155,068	137,612	102,374
Income from operations	71,887	92,462	83,798	59,652	32,354
Interest expense	(69,818)	(68,671)	(64,045)	(50,953)	(42,549)
Interest income	6,432	8,249	10,417	2,469	1,625
Gain on repurchase of exchangeable senior notes	27,928	6,311			
Loss on investments available for sale		(1,415)	(1,233)		
Fair value adjustment of obligation associated with Preferred Operating Partnership units			1,054		
Income (loss) before equity in earnings of real estate ventures and income tax expense	36,429	36,936	29,991	11,168	(8,570)
Equity in earnings of real estate ventures	6,964	6,932	5,300	4,693	3,170
Income tax expense	(4,300)	(519)			
Net income (loss)	39,093	43,349	35,291	15,861	(5,400)
Noncontrolling interests in Operating Partnership and other	(7,116)	(7,568)	(3,562)	(985)	434
Fixed distribution paid to Preferred Operating			(1,510)		

Partnership unit holder										
Net income (loss) attributable to common stockholders	$	31,977	$	35,781	$	30,219	$	14,876	$	(4,966)
Net income (loss) per common share										
Basic	$	0.37	$	0.46	$	0.47	$	0.27	$	(0.14)
Diluted	$	0.37	$	0.46	$	0.46	$	0.27	$	(0.14)
Weighted average number of shares										
Basic		86,343,029		76,996,754		64,900,713		55,117,021		35,481,538
Diluted		91,082,834		82,352,988		70,715,640		59,409,836		35,481,538
Cash dividends paid per common share	$	0.38	$	1.00	$	0.93	$	0.91	$	0.91
Balance Sheet Data										
Total assets	$	2,407,556	$	2,291,008	$	2,054,075	$	1,669,825	$	1,420,192
Total notes payable, notes payable to trusts and lines of credit	$	1,402,977	$	1,286,820	$	1,299,997	$	948,174	$	866,783
Noncontrolling interests	$	62,040	$	68,023	$	66,217	$	35,158	$	36,235
Total stockholders' equity	$	884,179	$	878,770	$	638,461	$	643,555	$	480,128
Other Data										
Net cash provided by operating activities	$	81,165	$	98,391	$	102,096	$	76,885	$	17,463
Net cash used in investing activities	$	(104,410)	$	(224,481)	$	(254,344)	$	(239,778)	$	(614,834)
Net cash provided by financing activities	$	91,223	$	172,685	$	98,824	$	205,041	$	601,695

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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." (Amounts in thousands, except share and per share data.)

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, manage, 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 725 self-storage properties.

At December 31, 2009, we owned, had ownership interests in, or managed 766 operating properties in 33 states and Washington, D.C. Of these 766 operating properties, 290 were wholly-owned, we held joint venture interests in 352 properties, and our taxable REIT subsidiary, Extra Space Management, Inc., operated an additional 124 properties that are owned by franchisees or third parties in exchange for a management fee. These operating properties contain approximately 55 million square feet of rentable space contained in approximately 500,000 units and currently serve a customer base of over 350,000 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/Oakland. 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.

To maximize the performance of our properties, we employ a state-of-the-art, 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. In addition, we also have an industry leading revenue management system called "RevMan." We believe that the combination of STORE's yield management capabilities and the systematic processes developed by our team using RevMan allows 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 reinsurance program. Our management fee is equal to approximately 6% of total revenues generated by the managed properties.

We operate in competitive markets, often where consumers have multiple self-storage properties from which to choose. Competition has impacted, and will continue to impact our property results. We experience seasonal fluctuations in occupancy levels, with occupancy levels generally higher in the summer months due to increased moving activity. Our operating results depend materially on our

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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 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 pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team seeks to maximize revenue by responding to changing market conditions through our technology system's ability to provide real-time, interactive rental rate and discount management. Our size allows 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.

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

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

During 2009, we acquired two wholly-owned properties and completed the development of 12 properties, all in our core markets. Of the completed development properties, eight are wholly-owned and consolidated, and four are owned by us in joint ventures, three of which are consolidated. We have ten wholly-owned development properties remaining that are scheduled for completion through 2010 and 2011.

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: Arrangements that are not controlled through voting or similar rights are accounted for as variable interest entities ("VIEs"). An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

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, 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.

We have concluded that under certain circumstances when we (1) enter into option agreements for the purchase of land or facilities from an entity and pay a non-refundable deposit, or (2) enter into arrangements for the formation of joint ventures, a VIE may be created under condition (i), (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. 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. Additionally, our Operating Partnership has notes payable to three trusts that are VIEs under condition (ii)(a) above. Since the Operating Partnership is not the primary beneficiary of the trusts, these VIEs are not consolidated.

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, which are estimated using significant unobservable inputs. 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 the amount of time required to replace existing customers which is based on our historical experience with turnover in our facilities. Debt assumed as part of an acquisition is recorded at fair value based on current interest rates compared to contractual rates. Acquisition-related transaction costs are expensed as incurred.

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 where the ground leases were assumed by the Company at rates that were different 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 held for use when events or circumstances indicate that there may be impairment. We review each property at least annually to determine if any such events or circumstances have occurred or exist. We focus on properties where occupancy and/or rental income have decreased by a significant amount. For these properties, we determine whether the decrease is temporary or permanent and whether the property will likely recover the lost occupancy and/or revenue in the short term. In addition, we carefully review properties in the lease-up stage and compare actual operating results to original projections.

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

When real estate assets are identified as held for sale, we discontinue depreciating the assets and estimate the fair value of the assets, net of selling costs, using significant unobservable inputs. If the estimated fair values, 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 generally presented as discontinued operations for all periods presented.

FAIR VALUE OF FINANCIAL INSTRUMENTS: The carrying values of cash and cash equivalents, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable rate notes payable, lines of credit and other liabilities reflected in the consolidated balance sheets at December 31, 2009 and 2008 approximate fair value. The fair values of our notes receivable and our fixed rate notes payable are as follows:

	December 31, 2009		December 31, 2008	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Note receivable from Preferred OP unit holder	$ 112,740	$ 100,000	$ 124,024	$ 100,000
Fixed rate notes payable and notes payable to trusts	$ 1,067,653	$ 1,015,063	$ 1,062,949	$ 937,756
Exchangeable senior notes	$ 110,122	$ 87,663	$ 131,039	$ 209,663

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 annually and when events or circumstances indicate that there may be impairment. An investment is impaired if management's estimate of the fair value of the investment, using significant unobservable inputs, 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.

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, 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 Operating Partnership agreement, are accounted for by reclassifying the underlying net book value of the units from noncontrolling interest to our equity. The difference between the fair value of the consideration paid and the adjustment to the carrying amount of the noncontrolling interest is recognized as additional paid in capital of the Company.

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 related management agreements. Tenant reinsurance premiums are recognized as revenues over the period of insurance coverage. 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 invoice amounts, estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

REAL ESTATE SALES: 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 and general and administrative expenses in our consolidated statements of operations.

We have elected to treat one of our corporate subsidiaries, Extra Space Management, Inc., 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). A TRS is subject to corporate federal income tax. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. Interest and penalties relating to uncertain tax positions will be recognized in income tax expense when incurred.

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STOCK-BASED COMPENSATION: The measurement and recognition of compensation expense for all share-based payment awards to employees and directors are based on estimated fair values. Awards are valued at fair value and recognized on a straight line basis over the service periods of each award.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 167, *"Amendments to FASB Interpretation No. 46(R),"* ("FAS 167"), (Accounting Standards Codification ("ASC") 810), which amends guidance for determining whether an entity is a VIE, and requires the performance of a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE. Under this guidance, an entity would be required to consolidate a VIE if it has (i) the power to direct the activities that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. This guidance is effective for the first annual reporting period that begins after November 15, 2009, with early adoption prohibited. We are currently evaluating the effect of the adoption of this guidance on its financial statements. As a result of this guidance we may be required to consolidate or deconsolidate certain of our joint ventures.

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

Overview

Results for the year ended December 31, 2009 included the operations of 642 properties (298 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, 2008, which included operations of 627 properties (283 of which were consolidated and 344 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, tenant reinsurance and other income.

Revenues

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

	For the Year Ended December 31,			
	2009	**2008**	**$ Change**	**% Change**
Revenues:				
Property rental	$ 238,256	$ 235,695	$ 2,561	1.1%
Management and franchise fees	20,961	20,945	16	0.1%
Tenant reinsurance	20,929	16,091	4,838	30.1%
Other income	330	520	(190)	(36.5)%
Total revenues	$ 280,476	$ 273,251	$ 7,225	2.6%

Property Rental The increase in property rental revenues consists of $8,554 associated with acquisitions and consolidations completed in 2009 and 2008 and $2,462 associated with increases in occupancy and rental rates at lease-up properties. These increases were offset by a decrease of $8,455 in revenues at stabilized properties mainly due to a decreased incoming rental rates and a decrease in average occupancy compared with the prior year.

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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% of cash collected from properties owned by third party, franchisees and unconsolidated joint ventures. Revenues from management and franchise fees have remained fairly stable compared to the previous year. Decreased revenues at our joint venture, franchise, and third-party managed sites related to rental rate and average occupancy decreases have been offset by additional management fees earned as a result of additional third party properties managed in 2009 compared to the prior year.

Tenant Reinsurance The increase in tenant reinsurance revenues is due to the fact that during the year ended December 31, 2009, we successfully increased overall customer participation to approximately 54% at December 31, 2009 compared to approximately 47% at December 31, 2008.

Other Income The decrease in other income is primarily due to the expiration of a sublease agreement.

Expenses

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

	For the Year Ended December 31,			
	2009	2008	$ Change	% Change
Expenses:				
Property operations	$ 88,935	$ 84,522	$ 4,413	5.2%
Tenant reinsurance	5,461	5,066	395	7.8%
Unrecovered development and acquisition costs	19,011	1,727	17,284	1,000.8%
Severance costs	2,225		2,225	100.0%
General and administrative	40,554	39,908	646	1.6%
Depreciation and amortization	52,403	49,566	2,837	5.7%
Total expenses	$ 208,589	$ 180,789	$ 27,800	15.4%

Property Operations The increase in property operations expense in 2009 was primarily due to increases of $2,313 associated with acquisitions completed in 2009 and 2008. Expenses also increased by $2,721 at existing properties related to increases in expenses at lease-up properties. These increases were partially offset by a decrease in expenses at stabilized properties of $344.

Tenant Reinsurance Tenant reinsurance expense represents the costs that are incurred to provide tenant reinsurance. The increase in tenant reinsurance expense is related to the increase in overall customer participation in the tenant reinsurance program to approximately 54% at December 31, 2009 compared to approximately 47% at December 31, 2008.

Unrecovered Development and Acquisition Costs These costs relate to unsuccessful development and acquisition activities during the periods indicated. On June 2, 2009, the Company announced that it had begun a wind-down of its development program. As a result of this decision, the Company recorded $18,883 of one-time impairment charges in order to write down the carrying value of undeveloped land, development projects that will be completed and investments in development projects to their estimated fair values less cost to sell. The unrecovered development and acquisition costs incurred during the year ended December 31, 2008 include $1,257 relating to due diligence costs that were part of an unsuccessful attempt by the Company to purchase a large portfolio of properties during the second quarter of 2008. The remainder of these costs relate to entitlement and other due diligence work done on development projects that the Company elected not to pursue.

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Severance Costs On June 2, 2009, the Company announced that it had begun a wind-down of its development program. As a result of this decision, the Company recorded severance costs of $1,400. In December 2009, the Company began the closure of its marketing office in Memphis, TN. As a result of this closure, the Company recorded severance costs of $825.

General and Administrative General and administrative expenses increased nominally when compared to the prior year while the number of properties under management increased by approximately 10%. The Company operated 766 properties as of December 31, 2009, compared to 694 at December 31, 2008.

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 2009 and 2008.

Other Revenue and Expenses

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

	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008	$ Change	% Change
Other revenue and expenses:				
Interest expense	$ (67,579)	$ (64,611)	$ (2,968)	4.6%
Non-cash interest expense related to amortization of discount on exchangeable senior notes	(2,239)	(4,060)	1,821	(44.9)%
Interest income	1,582	3,399	(1,817)	(53.5)%
Interest income on note receivable from Preferred Operating Partnership unit holder	4,850	4,850		
Gain on repurchase of exchangeable senior notes	27,928	6,311	21,617	342.5%
Loss on sale of investments available for sale		(1,415)	1,415	(100.0)%
Equity in earnings of real estate ventures	6,964	6,932	32	0.5%
Income tax expense	(4,300)	(519)	(3,781)	728.5%
Total other revenue (expense)	$ (32,794)	$ (49,113)	$ 16,319	(33.2)%

Interest Expense The increase in interest expense for the year ended December 31, 2009 was due primarily to the increases in our total notes payable and line of credit balances when compared to the prior year. These increases were partially offset by a decrease in the interest paid related to our Exchangeable Notes due to the repurchase of a total principal amount of $162,337 during 2008 and 2009.

Non-cash Interest Expense Related to Amortization of Discount on Exchangeable Senior Notes The decrease in non-cash interest expense related to amortization of discount on exchangeable senior notes for the year ended December 31, 2009 when compared to the prior year was due to the repurchase of a total principal amount of $162,337 of its notes during 2009 and 2008. The discount associated with the repurchase of the notes was written off as a result of these repurchases which decreased the ongoing amortization of the discount in 2009 when compared to 2008.

Interest Income Interest income earned in 2008 was primarily due to interest on the net proceeds from the sales of common stock in May and October 2008. There were no such sales of common stock during the year ended December 31, 2009.

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Interest Income on Note Receivable from Preferred Operating Partnership Unit Holder Represents interest on a $100,000 loan to the holder of the Series A Participating Redeemable Preferred units of our Operating Partnership (the "Preferred OP units").

Gain on Repurchase of Exchangeable Senior Notes This amount represents the gain on the repurchase of $122,000 total principal amount of our exchangeable senior notes during 2009. For the year ended December 31, 2008, we repurchased $40,337 principal amount of exchangeable senior notes resulting in a smaller gain compared to the year ended December 31, 2009.

Loss on Sale of Investments Available for Sale This amount represents the loss recorded on February 29, 2008 related to the liquidation of auction rate securities held in investments available for sale. We had no investments available for sale during the year ended December 31, 2009.

Equity in Earnings of Real Estate Ventures The change in equity in earnings of real estate ventures for the year ended December 31, 2009 relates to an increase of $753 from our purchase of an additional 40% interest in the VRS Self Storage LLC joint venture on July 1, 2008. This increase was offset by decreases in income at the properties owned by the real estate joint ventures.

Income Tax Expense The increase in income tax expense relates primarily to our net operating loss carryforward being used completely during 2008 and to the increased profitability of our TRS in 2009.

Net Income Allocated to Noncontrolling Interests

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

	For the Year Ended December 31,			
	2009	**2008**	**$ Change**	**% Change**
Net income allocated to noncontrolling interests:				
Net income allocated to Preferred Operating Partnership noncontrolling interests	$ (6,186)	$ (6,269)	$ 83	(1.3)%
Net income allocated to Operating Partnership and other non-controlling interests	(930)	(1,299)	369	(28.4)%
Total income allocated to noncontrolling interests:	$ (7,116)	$ (7,568)	$ 452	(6.0)%

Net Income Allocated to Preferred Operating Partnership Noncontrolling Interests Income allocated to the Preferred Operating Partnership equals the fixed distribution paid to the Preferred OP unit holder plus approximately 1.1% of the remaining net income allocated after the adjustment for the fixed distribution paid for the years ended December 31, 2009 and 2008. The amount allocated to noncontrolling interest was lower in 2009 than in 2008 as our net income was lower in 2009 than it was in 2008.

Net Income Allocated to Operating Partnership and Other Noncontrolling Interests Income allocated to the Operating Partnership represents approximately 4.4% and 4.7% of net income after the allocation of the fixed distribution paid to the Preferred OP unit holder for the years ended December 31, 2009 and 2008, respectively. The decrease in the amount allocated to the noncontrolling interests in the Operating Partnership was due to two factors: (1) a decrease in net income in 2009; and (2) a decrease in the percentage of income allocated to the noncontrolling interests in the Operating Partnership as a result of the redemption of 637,600 OP units for cash and common stock during the year ended December 31, 2009. Income allocated to other noncontrolling interests represents the losses allocated to partners in consolidated joint ventures on eight properties that were in lease-up during 2009. The loss allocated to the other noncontrolling interests was higher than the prior year as there were only four consolidated joint venture properties in lease-up for the year ended December 31, 2008.

Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

Overview

Results for the year ended December 31, 2008 included the operations of 627 properties (283 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, 2007, which included operations of 606 properties (262 of which were consolidated and 344 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, tenant reinsurance, and other income.

Revenues

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

	For the Year Ended December 31,			
	2008	**2007**	**$ Change**	**% Change**
Revenues:				
Property rental	$ 235,695	$ 206,315	$ 29,380	14.2%
Management and franchise fees	20,945	20,598	347	1.7%
Tenant reinsurance	16,091	11,049	5,042	45.6%
Other income	520	904	(384)	(42.5)%
Total revenues	$ 273,251	$ 238,866	$ 34,385	14.4%

Property Rental The increase in property rental revenues consists of $24,437 associated with acquisitions completed in 2008 and 2007, $2,782 associated with rental rate increases at stabilized properties and $2,161 from increases in occupancy and rental rates 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 party, 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 partially offset by lost management fees due to the termination of certain management agreements mainly due to the acquisition of the managed properties.

Tenant Reinsurance The increase in tenant reinsurance revenues is due to the fact that during the year ended December 31, 2008, we promoted the tenant reinsurance program and successfully increased overall customer participation to approximately 47% at December 31, 2008 compared to approximately 34% at December 31, 2007.

Other Income The decrease in other income is primarily due a decrease in development fee revenues earned because of a decrease in the volume of development relating to joint ventures in 2008 compared to 2007.

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Expenses

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

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	$ Change	% Change
Expenses:				
Property operations	$ 84,522	$ 73,070	$ 11,452	15.7%
Tenant reinsurance	5,066	4,710	356	7.6%
Unrecovered development and acquisition costs	1,727	765	962	125.8%
General and administrative	39,908	36,722	3,186	8.7%
Depreciation and amortization	49,566	39,801	9,765	24.5%
Total expenses	$ 180,789	$ 155,068	$ 25,721	16.6%

Property Operations The increase in property operations expense in 2008 was primarily due to increases of $9,146 associated with acquisitions completed in 2008 and 2007. There were also increases in expenses of $2,306 at existing properties primarily due to increases in repairs and maintenance, utilities and property taxes.

Tenant Reinsurance The increase in tenant reinsurance expense is due to the increase in tenant reinsurance revenues during 2008. A large portion of tenant reinsurance expense is variable and increases as tenant reinsurance revenues increase. During the year ended December 31, 2008, we continued to promote the tenant reinsurance program and successfully increased overall customer participation to approximately 47% at December 31, 2008 compared to approximately 34% at December 31, 2007.

Unrecovered Development and Acquisition Costs The unrecovered development and acquisition costs incurred during the year ended December 31, 2008 include $1,257 relating to due diligence costs that were part of an unsuccessful attempt by us to purchase a large portfolio of properties during the second quarter of 2008. The remainder of these costs in 2008 and the costs in 2007 relate to entitlement and other due diligence work done on development projects that we elected not to pursue.

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 2008 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 2008 and 2007.

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Other Revenue and Expenses

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

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	$ Change	% Change
Other revenue and expenses:				
Interest expense	$ (64,611)	$ (61,015)	$ (3,596)	5.9%
Non-cash interest expense related to amortization of discount on exchangeable senior notes	(4,060)	(3,030)	(1,030)	34.0%
Interest income	3,399	7,925	(4,526)	(57.1)%
Interest income on note receivable from Preferred Operating Partnership unit holder	4,850	2,492	2,358	94.6%
Gain on repurchase of exchangeable senior notes	6,311		6,311	
Loss on sale of investments available for sale	(1,415)		(1,415)	
Impairment of investments available for sale		(1,233)	1,233	(100.0)%
Fair value adjustment of obligation associated with Preferred Operating Partnership units		1,054	(1,054)	(100.0)%
Equity in earnings of real estate ventures	6,932	5,300	1,632	30.8%
Income tax expense	(519)		(519)	
Total other revenue (expense)	$ (49,113)	$ (48,507)	$ (606)	0.2%

Interest Expense The increase in interest expense for the year ended December 31, 2008 was due primarily to $3,191 associated with mortgage loans on acquisitions completed in 2007. The increase was partially offset by lower interest costs on existing property debt. Capitalized interest during the years ended December 31, 2008 and 2007 was $5,506 and $4,555, respectively.

Non-cash Interest Expense Related to Amortization of Discount on Exchangeable Senior Notes The increase in non-cash interest expense related to amortization of discount on exchangeable senior notes for the year ended December 31, 2008 when compared to the prior year was due to a full year of discount amortization being recorded in 2008 compared to only a partial year of discount amortization in 2007 as the exchangeable senior notes were issued on March 27, 2007.

Interest Income Interest income earned in 2008 was primarily due to interest on the net proceeds from the sales of common stock in May and October 2008. Interest income earned in 2007 was mainly the result of the interest earned on the net proceeds received from the $250,000 exchangeable senior notes issued in March 2007 and on the remaining net proceeds from the sale of common stock in September 2006. Invested cash decreased steadily throughout 2007 as the funds were used for operations, acquisitions and development.

Interest Income on note receivable from Preferred Operating Partnership unit holder Represents interest on a $100,000 loan to the holder of the Preferred OP 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.

Gain on Repurchase of Exchangeable Senior Notes Represents the gain on the repurchase of $40,337 principal amount of the Operating Partnership's exchangeable senior notes. We paid cash of $31,721 to repurchase the notes, wrote off debt issuance costs of $646 and adjusted the discount on exchangeable senior notes to fair value by $1,659 for a net gain of $6,311. There were no repurchases of exchangeable senior notes during the year ended December 31, 2007.

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Loss on Sale of Investments Available for Sale Represents the amount of loss recorded on February 29, 2008 related to the liquidation of auction rate securities held in investments for sale.

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 the ARS we held 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.

Fair Value Adjustment of Obligation Associated with Preferred Operating 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.

Equity in Earnings of Real Estate Ventures The change in equity in earnings of real estate ventures for the year ended December 31, 2008 primarily relates to an increase of $1,098 from our purchase of an additional 40% interest in the VRS Self Storage LLC joint venture on July 1, 2008. The remainder of the change is a result of an increase 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.

Income Tax Expense The increase in income tax expense relates primarily to our net operating loss carryforward being used completely during 2008.

Net Income Allocated to Noncontrolling Interests

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

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	$ Change	% Change
Net income allocated to noncontrolling interests:				
Net income allocated to Preferred Operating Partnership noncontrolling interests	$ (6,269)	$ (1,730)	$ (4,539)	262.4%
Net income allocated to Operating Partnership and other non-controlling interests	(1,299)	(1,832)	533	(29.1)%
Fixed distribution paid to Preferred Operating Partnership unit holder		(1,510)	1,510	(100.0)%
Total income allocated to noncontrolling interests:	$ (7,568)	$ (5,072)	$ (2,496)	49.2%

Net Income Allocated to Preferred Operating Partnership Noncontrolling Interests Income allocated to the Preferred Operating Partnership equals the fixed distribution paid to the Preferred OP unit holder plus approximately 1.1% of the remaining net income allocated after the adjustment for the fixed distribution paid for the year ended December 31, 2008. The amount allocated to noncontrolling interest was higher in 2008 than in 2007 as the Preferred OP units were issued in June and August 2007.

Net Income Allocated to Operating Partnership and Other Noncontrolling Interests Income allocated to the Operating Partnership represents approximately 4.7% of net income after the allocation of the fixed distribution paid to the Preferred OP unit holder. The decrease in the amount allocated to the noncontrolling interests in the Operating Partnership was due to a full year of fixed

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distribution being paid to the Preferred Operating Partnership in 2008. Income allocated to other noncontrolling interests represents the losses allocated to partners in consolidated joint ventures on four properties that were in lease-up during 2008. The amount allocated to the other noncontrolling interests was higher than the prior year as there were only two consolidated joint venture properties in lease-up for the year ended December 31, 2007.

Fixed Distribution Paid to Preferred Operating Partnership Unit Holder The amount for the year ended December 31, 2007 represents the fixed distributions that were paid to the Preferred OP unit holder between the original issuance of the Preferred OP units and the completion of the amendment to the Operating Partnership Agreement that was signed on September 28, 2007.

FUNDS FROM OPERATIONS

FFO provides relevant and meaningful information about our operating performance that is necessary, along with net income and cash flows, for an understanding of our operating results. We believe FFO is a meaningful disclosure as a supplement to net earnings. Net earnings assume that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. The values of real estate assets fluctuate due to market conditions and we believe FFO more accurately reflects the value of our real estate assets. FFO is defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT") as net income computed in accordance with 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 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 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 for the periods indicated (dollars are in thousands, except for share data):

	For the Year Ended December 31,		
	2009	**2008**	**2007**
Net income attributable to common stockholders	$ 31,977	$ 35,781	$ 30,219
Adjustments:			
Real estate depreciation	48,417	42,834	33,779
Amortization of intangibles	1,647	4,494	4,159
Joint venture real estate depreciation and amortization	5,805	5,072	4,039
Joint venture loss on sale of properties	175		43
Fair value adjustment of obligation associated with Preferred Operating Partnership units			(1,054)
Distributions paid on Preferred Operating Partnership units	(5,750)	(5,750)	(1,438)
Income allocated to Operating Partnership noncontrolling interests	8,012	8,444	3,843
Funds from operations	$ 90,283	$ 90,875	$ 73,590

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SAME-STORE STABILIZED PROPERTY RESULTS

We consider our same-store stabilized portfolio to consist of only those properties which were wholly-owned at the beginning and at the end of the applicable periods presented 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 (revenues include tenant reinsurance income). 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 and completed developments.

	For the Three Months ended December 31,		Percent	For the Year Ended December 31,		Percent	For the Year Ended December 31,		Percent
	2009	2008	Change	2009	2008	Change	2008	2007	Change
Same-store rental and tenant reinsurance revenues	$ 56,497	$ 58,863	(4.0)%	$ 226,899	$ 233,682	(2.9)%	$ 188,150	$ 183,869	2.3%
Same-store operating and tenant reinsurance expenses	19,752	19,391	1.9%	80,009	80,142	(0.2)%	63,606	63,428	0.3%
Same-store net operating income	36,745	39,472	(6.9)%	146,890	153,540	(4.3)%	124,544	120,441	3.4%
Non same-store rental and tenant reinsurance revenues	8,948	6,294	42.2%	32,286	18,104	78.3%	63,636	33,495	90.0%
Non same-store operating and tenant reinsurance expenses	3,192	3,368	(5.2)%	14,387	9,446	52.3%	25,982	14,352	81.0%
Total rental and tenant reinsurance revenues	65,445	65,157	0.4%	259,185	251,786	2.9%	251,786	217,364	15.8%
Total operating and tenant reinsurance expenses	22,944	22,759	0.8%	94,396	89,588	5.4%	89,588	77,780	15.2%
Same-store square foot occupancy as of quarter and year end	83.2%	82.2%		83.2%	82.2%		84.1%	85.1%	
Properties included in same-store	252	252		252	252		210	210	

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

The decrease in same-store rental revenues was primarily due to lower rates to new customers and decreased average annual occupancy. These decreases were partially offset by rental rate increases to existing tenants.

Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

The increase in same-store rental revenues was primarily due to increased rental rates to existing tenants which offset lower rental rates to new tenants and a slight reduction in occupancy due to increased move-out activity.

CASH FLOWS

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

Cash flows provided by operating activities were $81,165 and $98,391 for the years ended December 31, 2009 and 2008, respectively. This decrease was due mainly to a decrease in net income and an increase in the cash paid to affiliated joint ventures and related parties during 2009 compared to 2008 to repay receivables from related parties and affiliated real estate joint ventures. Additionally, more cash was spent to pay down accounts payable and accrued expenses in 2009 when compared to 2008.

Cash used in investing activities was $104,410 and $224,481 for the years ended December 31, 2009 and 2008, respectively. The decrease in 2009 was primarily the result of $89,108 less cash being used to fund acquisition activities in 2009 compared to 2008 and a decrease of $46,815 in the amount of cash invested in real estate ventures in 2009 compared to 2008. These decreases were partially offset by the collection of $21,812 of cash from the sale of our investments available for sale in 2008, compared to $0 in 2009.

Cash provided by financing activities were $91,223 and $172,685 for the years ended December 31, 2009 and 2008, respectively. The decrease in cash provided in 2009 when compared to the prior year was primarily the result of proceeds from issuance of common stock of $276,601 in 2008 compared to $0 in 2009. Additionally, we paid $56,013 more cash in 2009 to repurchase a portion of our exchangeable senior notes when compared to the prior year. These decreases were partially offset by a net increase of $206,609 in the net proceeds from notes payable and lines of credit in 2009 when compared to 2008, and $46,320 less cash paid for dividends in 2009.

Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

Cash flows provided by operating activities were $98,391 and $102,096 for the years ended December 31, 2008 and 2007, respectively. This decrease was due mainly to an increase in the cash paid on behalf of affiliated joint ventures and related parties during 2008 compared to 2007, which resulted in an increase in receivables from related parties. Additionally, more cash was spent to acquire other assets in 2008 when compared to 2007. These decreases were partially offset by the increase in cash due to the acquisition of new stabilized properties in 2008 and 2007.

Cash used in investing activities was $224,481 and $254,344 for the years ended December 31, 2008 and 2007, respectively. The decrease in 2008 was primarily the result of $56,397 less cash being used to fund acquisition activities and the collection of $21,812 of cash from the sale of our investments available for sale, compared to a payment of $24,460 to purchase investments available for sale in 2007. These decreases were partially offset by an increase of $19,670 in development activities and an increase of $39,223 invested in real estate ventures when compared to the prior year.

Cash provided by financing activities was $172,685 and $98,824 for the years ended December 31, 2008 and 2007, respectively. The increase in cash provided in 2008 was due primarily to proceeds from issuance of common stock of $276,601 in 2008 compared to $0 in 2007, and no cash was loaned to the Preferred OP unit holder in 2008 when compared to the prior year. These increases were offset primarily by the decrease of $250,000 of proceeds from exchangeable senior notes, as no new notes were issued in 2008.

2009 OPERATIONAL SUMMARY

Our 2009 property operations were challenging with decreases in same-store average annual occupancy, revenues and net operating income. On a same-store basis (including tenant reinsurance revenues), revenue and net operating income decreased 2.9% and 4.3%, respectively. Same-store expense control was excellent, with a year-on-year decrease of a 0.2%. The decrease in same-store rental revenues was primarily due to decreased average annual occupancy and lower rates to new customers. These decreases were partially offset by rental rate increases to existing tenants.

Properties located in the markets of Chicago, Indianapolis, New York City/Northern New Jersey, San Francisco/San Jose, and Washington DC were the top performers when comparing year on year

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revenue. Markets performing below the portfolio average in year-on-year revenue included Atlanta, Memphis, Miami, Philadelphia, Phoenix, Tampa, and West Palm Beach.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2009, we had $131,950 available in cash and cash equivalents. We intend to use this cash to repay debt scheduled to mature in 2010 and 2011 and for general corporate purposes. We are required to distribute at least 90% of our net taxable income, excluding net capital gains, to our stockholders on an annual basis to maintain our qualification as a REIT. Recently issued guidance from the IRS allowed for up to 90% of a REIT's dividends to be paid with its common stock through 2011 if certain conditions were met. 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.

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

On February 13, 2009, we entered into a $50,000 Secondary Credit Line that is collateralized by mortgages on certain real estate assets and matures February 13, 2012. We intend to use the proceeds from the Secondary Credit Line to repay debt and for general corporate purposes. The Secondary Credit Line has an interest rate of LIBOR plus 325 basis points (3.5% at December 31, 2009). As of December 31, 2009, there were no amounts drawn on the Secondary Credit Line. We are subject to certain restrictive covenants relating to the Secondary Credit Line. We were in compliance with all financial covenants as of December 31, 2009.

On October 19, 2007, we entered into a $100,000 Credit Line. Outstanding balances on the Credit Line at December 31, 2009 and 2008 were $100,000 and $27,000, respectively. We intend to use the proceeds of the Credit Line to repay debt and for general corporate purposes. The Credit Line has an interest rate of between 100 and 205 basis points over LIBOR, depending on certain of our financial ratios (1.2% at December 31, 2009). The Credit Line is collateralized by mortgages on certain real estate assets. The Credit Line matures on October 31, 2010 with two one-year extensions available. We are not subject to any financial covenants relating to the Credit Line.

As of December 31, 2009, we had approximately $1,406,846 of debt, resulting in a debt to total capitalization ratio of 57.1%. As of December 31, 2009, the ratio of total fixed rate debt and other instruments to total debt was 78.4% (including $107,145 on which we have interest rate swaps that have been included as fixed-rate debt). The weighted average interest rate of the total of fixed and variable rate debt at December 31, 2009 was 5.1%. Certain of our real estate assets are pledged as collateral for our debt. We are subject to certain restrictive covenants relating to our outstanding debt. We were in compliance with all financial covenants at December 31, 2009.

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

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

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

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.

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

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CONTRACTUAL OBLIGATIONS

The following table sets forth information on payments due by period at December 31, 2009:

	Payments due by Period:				
	Total	Less Than 1 Year (2010)	1-3 Years (2011-2012)	3-5 Years (2013-2014)	After 5 Years (after 2014)
Operating leases	$ 63,232	$ 5,942	$ 10,579	$ 8,704	$ 38,007
Notes payable, notes payable to trusts, exchangeable senior notes and lines of credit					
Interest	520,170	68,237	118,676	95,523	237,734
Principal	1,406,846	179,068	254,843	287,204	685,731
Total contractual obligations	$ 1,990,248	$ 253,247	$ 384,098	$ 391,431	$ 961,472

As of December 31, 2009, the weighted average interest rate for all fixed rate loans was 5.6%, and the weighted average interest rate on all variable rate loans was 3.3%.

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,

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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.

During 2008 and 2009, we repurchased $162,337 million in aggregate principal amount of our exchangeable senior notes on the open market for $119,455 in cash. We may from time to time seek to retire, repurchase or redeem our additional outstanding debt including our exchangeable senior notes as well as shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or redemptions, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

SEASONALITY

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

Item 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, 2009, we had $1.4 billion in total debt, of which $304.1 million was subject to variable interest rates (excluding debt with interest rate swaps). If LIBOR were to increase or decrease by 100 basis points, the increase or decrease in interest expense on the variable rate debt would increase or decrease future earnings and cash flows by approximately $3.0 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.

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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.

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Report of Independent Registered Public Accounting Firm

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, 2009 and 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. 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, 2009 and 2008 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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 statement taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the financial statements, effective January 1, 2009, Extra Space Storage retroactively adopted the requirements of Statement of Position No. APB 14-1, "*Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement*" (ASC 470-20-65), Statement No. 160 "*Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*" (ASC 810-10-65), and FASB Staff Position EITF 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*" (ASC 260-10) for all periods presented.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, 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 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 26, 2010

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Extra Space Storage Inc.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	December 31, 2009	December 31, 2008 (As revised Note 2)
Assets:		
Real estate assets:		
Net operating real estate assets	$ 2,015,432	$ 1,938,922
Real estate under development	34,427	58,734
Net real estate assets	2,049,859	1,997,656
Investments in real estate ventures	130,449	136,791
Cash and cash equivalents	131,950	63,972
Restricted cash	39,208	38,678
Receivables from related parties and affiliated real estate joint ventures	5,114	11,335
Other assets, net	50,976	42,576
Total assets	$ 2,407,556	$ 2,291,008
Liabilities, Noncontrolling Interests and Equity:		
Notes payable	$ 1,099,593	$ 943,598
Notes payable to trusts	119,590	119,590
Exchangeable senior notes	87,663	209,663
Discount on exchangeable senior notes	(3,869)	(13,031)
Lines of credit	100,000	27,000
Accounts payable and accrued expenses	33,386	35,128
Other liabilities	24,974	22,267
Total liabilities	1,461,337	1,344,215
Commitments and contingencies		
Equity:		
Extra Space Storage Inc. stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding		