Extra Space Storage Inc.
Form 10-K
February 28, 2013

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Item 8. Financial Statements and Supplementary Data

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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, 2012

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) 365-4600**

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 ý 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 $2,990,113,517 based upon the closing price on the New York Stock Exchange on June 29, 2012, 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 15, 2013 was 110,742,088.

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 2013 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:

- *adverse changes in general economic conditions, the real estate industry and in the markets in which we operate;*
- *the effect of competition from new and existing self-storage facilities or other storage alternatives, which could cause rents and occupancy rates to decline;*
- *difficulties in our ability to evaluate, finance, complete and integrate acquisitions and developments successfully and to lease up those properties, which could adversely affect our profitability;*
- *potential liability for uninsured losses and environmental contamination;*
- *the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing Real Estate Investment Trusts ("REITs"), which could increase our expenses and reduce our cash available for distribution;*
- *disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;*
- *increased interest rates and operating costs;*
- *reductions in asset valuations and related impairment charges;*
- *the failure of our joint venture partners to fulfill their obligations to us or their pursuit of actions that are inconsistent with our objectives;*
- *the failure to maintain our REIT status for federal income tax purposes;*

economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan; and

difficulties in our ability to attract and retain qualified personnel and management members.

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, 2012, we held ownership interests in 729 operating properties. Of these operating properties, 448 are wholly-owned, and 281 are owned in joint venture partnerships. An additional 181 operating properties are owned by 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 910. These operating properties are located in 34 states, Washington, D.C. and Puerto Rico and contain approximately 67.0 million square feet of net rentable space in approximately 610,000 units and currently serve a customer base of over 490,000 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 redeveloping self-storage facilities. Our rental operations activities include rental operations 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) 365-4600.

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Management

Members of our executive management team have significant experience in all aspects of the self-storage industry, having acquired and/or developed a significant number of properties since before our IPO. Our executive management team and their years of industry experience are as follows: Spencer F. Kirk, Chief Executive Officer, 15 years; Scott Stubbs, Executive Vice President and Chief Financial Officer, 12 years; Karl Haas, Executive Vice President and Chief Operating Officer, 25 years; Charles L. Allen, Executive Vice President and Chief Legal Officer, 15 years; and Kenneth M. Woolley, Executive Chairman and Chief Investment Officer, 32 years.

Our executive management team and board of directors have a significant ownership position in the Company with executive officers and directors owning approximately 6,119,889 shares or 5.5% of our outstanding common stock as of February 15, 2013.

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 5 feet by 5 feet to 20 feet by 20 feet, with an interior height of 8 feet 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 spring and summer months. 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. According to the Self-Storage Almanac (the "Almanac"), in 2002 there were only 35,176 self-storage properties in the United States, with an average physical occupancy rate of 85.4% of net rentable square feet, compared to 50,859 self-storage properties in 2012 with an average physical occupancy rate of 79.7% of net rentable square feet.

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.

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The industry is also characterized by fragmented ownership. According to the Almanac, the top ten self-storage companies in the United States owned approximately 11.4% of total U.S. self-storage properties, and the top 50 self-storage companies owned approximately 15.1% of the total U.S. properties as of December 31, 2012. We believe this fragmentation will contribute to continued consolidation at some level in the future. We also believe that we are well positioned 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 CubeSmart.

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 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.

Acquire self-storage properties from strategic partners and third parties. Our acquisitions team continues to pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. We have established a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, we believe our status as an UPREIT enables flexibility when structuring deals. We continue to see available acquisitions on which to bid and are seeing increasing prices. However, we remain a disciplined buyer and look for acquisitions that will strengthen our portfolio and increase stockholder value.

Expand our management business. Our management business enables us to generate increased revenues through management fees and expand our geographic footprint. This expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We pursue strategic relationships with owners whose properties would enhance our portfolio in the event an opportunity arises to acquire such properties.

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Financing of Our Long-Term Growth Strategies

Acquisition and Development Financing

The following table presents information on our lines of credit (the "Credit Lines") for the periods indicated (amounts in thousands):

	As of December 31, 2012						
Line of Credit	**Amount Drawn**	**Capacity**	**Interest Rate**	**Origination Date**	**Maturity**	**Basis Rate**	**Notes**
Credit Line 1	$ 35,000	$ 75,000	2.36%	2/13/2009	2/13/2014	LIBOR plus 2.15%	(1)(4)(5)
Credit Line 2		75,000	2.41%	6/4/2010	5/31/2013	LIBOR plus 2.20%	(2)(4)(5)
Credit Line 3		40,000	2.41%	11/16/2010	11/16/2013	LIBOR plus 2.20%	(3)(4)(5)
Credit Line 4	50,000	50,000	2.36%	4/29/2011	5/1/2014	LIBOR plus 2.15%	(3)(4)(5)
	$ 85,000	$ 240,000					

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(1) One year extension available

(2) One two-year extension available

(3) Two one-year extensions available

(4) Guaranteed by the Company

(5) Secured by mortgages on certain real estate assets

We expect to maintain a flexible approach in financing new property acquisitions. We plan to finance future acquisitions 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 280 of our stabilized properties and one 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 maintain the right to receive between 2.0% and 58.3% 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 65.0% 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, 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"), places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws also exist that may require modifications to the properties, or restrict further renovations thereof, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, thereby requiring substantial capital expenditures. To the extent our properties are not in compliance, we are likely to incur additional costs to comply with the ADA.

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

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

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

Employees

As of February 15, 2013, we had 2,283 employees and believe our relationship with our employees is 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;
- a decline 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;
- 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.

If we are unable to promptly re-let our units or if the rates upon such re-letting are significantly lower than expected, 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 1,925 field personnel as of February 15, 2013 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.

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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, 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

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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 tenant reinsurance business is subject to significant governmental regulation, which may adversely affect our results.

Our tenant reinsurance business is subject to significant governmental regulation. The regulatory authorities generally have broad discretion to grant, renew and revoke licenses and approvals, to promulgate, interpret and implement regulations, and to evaluate compliance with regulations through periodic examinations, audits and investigations of the affairs of insurance providers. As a result of regulatory or private action in any jurisdiction, we may be temporarily or permanently suspended from continuing some or all of our reinsurance activities, or otherwise fined or penalized or suffer an adverse judgment, which could adversely affect our business and results of operations.

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 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.

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;

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- 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 operating results 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 determined by third-party appraisals. In such cases, the value of the properties was determined by our senior management team.

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 or redevelopment 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 developed 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.

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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.

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 on the continued services of members of our executive management team, who have substantial experience in the self-storage industry. In addition, our ability to acquire or 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.

We have provided certain tax protections to various third parties in connection with their property contributions to the Operating Partnership upon acquisition by the Company, including making available the opportunity to (1) guarantee debt or (2) enter into a special loss allocation and deficit restoration obligation. We have 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, 2012, we held interests in 281 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.

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

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

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

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

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; to Spencer F. Kirk, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing; and to 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.

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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.

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 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.

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, 2012, we had approximately $1.6 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.

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, 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, 2012, we had approximately $1.6 billion of debt outstanding, of which approximately $298.7 million or 19.0% was subject to variable interest rates (excluding debt with interest rate swaps). This variable rate debt had a weighted average interest rate of approximately 2.3% 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 (excluding variable rate debt with interest rate floors), the increase in interest expense would decrease future earnings and cash flows by approximately $2.6 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 stockholders, a REIT is permitted to satisfy these requirements by making distributions of cash or other property, including, in limited circumstances, its own stock. 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

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of cash and inclusion of income for U.S. federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments.

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

The maximum U.S. federal income tax rate for dividends paid by domestic corporations to individual U.S. stockholders is 15% (through 2012). 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 interest 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 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 ("TRS") 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. ESM Reinsurance Limited, a wholly-owned subsidiary of Extra Space Management, Inc., generates income from insurance premiums that are subject to federal income tax and state insurance premiums tax. 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.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2012, we owned or had ownership interests in 729 operating self-storage properties. Of these properties, 448 are wholly-owned and 281 are held in joint ventures. In addition, we managed an additional 181 properties for third parties bringing the total number of properties which we own and/or manage to 910. These properties are located in 34 states, Washington, D.C. and Puerto Rico. We receive a management fee generally equal to approximately 6% of cash collected from total revenues to manage the joint venture and third party sites. As of December 31, 2012, we owned and/or managed approximately 67.0 million square feet of rentable space configured in approximately 610,000 separate storage units. Approximately 81% 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, 2012, over 490,000 tenants were leasing storage units at the 910 operating properties that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as 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, 2012, the average length of stay was approximately 13 months. The average annual rent per square foot at these stabilized properties was approximately $13.88 at December 31, 2012, compared to $13.50 at December 31, 2011.

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

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The following table presents additional information regarding the occupancy of our stabilized properties by state as of December 31, 2012 and 2011. The information as of December 31, 2011, is on a pro forma basis as though all the properties owned at December 31, 2012, were under our control as of December 31, 2011.

Stabilized Property Data Based on Location

Location	Number of Properties	Company Number of Units as of December 31, 2012(1)	Pro forma Number of Units as of December 31, 2011	Company Net Rentable Square Feet as of December 31, 2012(2)	Pro forma Net Rentable Square Feet as of December 31, 2011	Company Square Foot Occupancy % December 31, 2012	Pro forma Square Foot Occupancy % December 31, 2011
Wholly-owned properties							
Alabama	4	1,971	1,957	233,643	233,429	85.4%	77.2%
Arizona	9	5,754	5,745	664,711	664,886	87.4%	86.5%
California	78	58,300	58,107	6,008,132	6,009,544	87.0%	83.6%
Colorado	11	5,290	5,256	660,425	661,320	88.6%	86.5%
Connecticut	4	2,644	2,650	257,813	257,848	88.8%	90.0%
Florida	43	29,213	29,197	3,175,399	3,178,605	86.5%	84.2%
Georgia	17	9,190	9,194	1,176,667	1,177,561	86.9%	84.1%
Hawaii	2	2,788	2,796	137,785	138,084	86.0%	85.7%
Illinois	12	8,070	8,032	872,672	873,699	90.6%	85.8%
Indiana	9	4,600	4,615	542,543	541,609	89.6%	87.2%
Kansas	1	506	505	50,350	50,340	84.9%	89.5%
Kentucky	4	2,151	2,155	254,115	254,065	90.1%	89.2%
Louisiana	2	1,412	1,413	149,865	150,165	89.3%	88.5%
Maryland	20	14,559	14,536	1,572,741	1,570,891	87.3%	87.4%
Massachusetts	32	19,572	19,390	2,000,034	1,988,816	89.2%	88.8%
Michigan	3	1,781	1,772	253,072	252,512	87.1%	87.7%
Missouri	6	3,155	3,156	374,537	374,912	86.9%	88.5%
Nevada	5	3,207	3,214	546,203	495,277	83.4%	79.2%
New Hampshire	2	1,005	1,005	125,773	124,873	90.2%	90.3%
New Jersey	44	35,248	35,328	3,402,478	3,404,398	89.6%	87.7%
New Mexico	3	1,592	1,579	216,064	215,864	86.2%	87.8%
New York	21	17,543	17,552	1,481,265	1,481,570	89.0%	88.6%
Ohio	18	9,670	9,748	1,257,321	1,248,006	88.9%	83.7%
Oregon	2	1,409	1,409	174,660	174,670	92.0%	93.0%
Pennsylvania	9	5,728	5,726	650,755	655,710	88.8%	90.2%
Rhode Island	2	1,180	1,181	130,836	130,756	86.3%	84.2%
South Carolina	5	2,700	2,698	327,725	327,478	85.9%	84.6%
Tennessee	9	4,926	4,889	673,159	668,954	85.3%	84.3%
Texas	25	16,095	16,085	1,894,205	1,891,005	87.4%	85.5%
Utah	8	4,032	3,845	503,750	484,974	87.3%	87.0%
Virginia	11	7,485	7,490	757,546	757,432	86.8%	86.3%
Washington	5	3,054	3,072	370,630	370,745	86.6%	84.2%
Total Wholly-Owned Stabilized	**426**	**285,830**	**285,297**	**30,896,874**	**30,809,998**	**87.8%**	**85.8%**

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Location	Number of Properties	Company Number of Units as of December 31, 2012(1)	Pro forma Number of Units as of December 31, 2011	Company Net Rentable Square Feet as of December 31, 2012(2)	Pro forma Net Rentable Square Feet as of December 31, 2011	Company Square Foot Occupancy % December 31, 2012	Pro forma Square Foot Occupancy % December 31, 2011
Joint-venture properties							
Alabama	2	1,147	1,145	145,213	145,063	89.7%	84.6%
Arizona	7	4,211	4,195	493,191	493,422	88.6%	89.2%
California	77	55,510	55,292	5,732,449	5,732,572	90.9%	88.0%
Colorado	2	1,320	1,316	158,553	158,513	88.5%	82.3%
Connecticut	7	5,298	5,299	612,255	611,890	88.9%	89.2%
Delaware	1	589	585	71,680	71,680	92.8%	93.7%
Florida	19	15,274	15,673	1,532,906	1,565,600	87.8%	85.4%
Georgia	2	1,061	1,063	151,684	151,644	86.8%	79.5%
Illinois	6	4,328	4,288	436,411	436,371	89.4%	87.6%
Indiana	5	2,145	2,135	283,611	284,591	91.9%	89.3%
Kansas	2	842	838	108,990	108,905	85.0%	82.2%
Kentucky	4	2,289	2,281	270,013	269,845	89.5%	87.1%
Maryland	13	10,534	10,492	1,023,779	1,019,754	88.8%	87.9%
Massachusetts	13	6,871	6,867	777,077	777,977	90.2%	86.7%
Michigan	8	4,749	4,696	611,558	611,943	91.2%	88.8%
Missouri	1	532	530	61,275	61,275	88.5%	90.8%
Nevada	5	3,062	3,082	325,923	326,895	86.7%	81.7%
New Hampshire	3	1,309	1,310	137,024	137,314	89.7%	87.2%
New Jersey	16	12,869	12,880	1,356,579	1,357,758	90.7%	87.9%
New Mexico	7	3,612	3,603	398,007	398,376	80.8%	85.2%
New York	13	14,119	14,121	1,106,469	1,105,940	92.8%	89.9%
Ohio	8	3,946	3,926	531,937	532,477	87.1%	85.8%
Oregon	1	652	651	64,970	64,970	93.2%	94.9%
Pennsylvania	10	7,944	7,991	799,590	799,911	89.6%	88.9%
Tennessee	17	9,288	9,238	1,214,916	1,213,839	85.8%	84.7%
Texas	17	10,536	10,464	1,388,171	1,381,405	89.3%	88.2%
Virginia	13	9,337	9,343	993,256	993,239	86.7%	87.2%
Washington, DC	1	1,529	1,529	101,989	101,989	90.6%	89.1%
Total Joint-Ventures Stabilized	**280**	**194,903**	**194,833**	**20,889,476**	**20,915,158**	**89.4%**	**87.4%**

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Location	Number of Properties	Company Number of Units as of December 31, 2012(1)	Pro forma Number of Units as of December 31, 2011	Company Net Rentable Square Feet as of December 31, 2012(2)	Pro forma Net Rentable Square Feet as of December 31, 2011	Company Square Foot Occupancy % December 31, 2012	Pro forma Square Foot Occupancy % December 31, 2011
Managed properties							
Arizona	1	578	578	67,460	67,300	69.5%	54.8%
California	48	32,763	33,075	4,275,594	4,255,844	73.8%	71.6%
Colorado	4	1,525	1,521	167,393	167,290	91.0%	87.6%
Connecticut	1	481	489	61,480	61,360	78.6%	72.8%
Florida	17	9,016	9,025	1,059,613	1,053,656	81.8%	78.0%
Georgia	2	1,437	1,432	183,800	180,550	80.0%	77.0%
Hawaii	3	3,449	3,516	195,833	202,429	65.5%	57.1%
Illinois	5	2,984	2,952	312,785	312,808	88.4%	74.5%
Indiana	1	498	501	55,225	55,225	81.0%	74.9%
Kentucky	1	535	526	66,868	66,100	89.4%	91.2%
Louisiana	1	1,013	1,015	134,940	135,315	76.5%	65.7%
Maryland	7	4,237	4,216	448,335	448,500	90.3%	87.2%
Massachusetts	4	4,267	4,306	376,423	376,623	61.7%	59.8%
Missouri	2	1,206	1,222	151,716	152,736	84.7%	82.2%
Nevada	2	1,562	1,566	170,575	170,375	75.6%	78.4%
New Jersey	7	4,114	4,127	430,198	427,358	74.4%	70.3%
New Mexico	2	1,109	1,105	132,137	132,262	88.8%	87.5%
North Carolina	8	5,130	5,224	577,589	577,804	80.0%	79.0%
Pennsylvania	15	6,980	7,031	860,662	860,285	82.9%	79.5%
South Carolina	1	606	617	88,430	88,130	88.6%	80.5%
Tennessee	3	1,503	1,491	206,465	205,225	87.3%	86.4%
Texas	8	4,119	4,128	551,599	544,094	87.0%	83.4%
Utah	1	795	795	136,005	136,005	74.8%	74.8%
Virginia	4	2,517	2,516	258,481	258,472	76.0%	74.6%
Washington	1	468	464	56,590	56,590	85.6%	82.9%
Washington, DC	2	1,263	1,263	112,459	112,459	84.7%	89.0%
Puerto Rico	4	2,775	2,775	289,003	289,003	80.2%	80.2%
Total Managed Stabilized	**155**	**96,930**	**97,476**	**11,427,658**	**11,393,798**	**78.3%**	**75.3%**
Total Stabilized Properties	**861**	**577,663**	**577,606**	**63,214,008**	**63,118,954**	**86.6%**	**84.5%**

(1) Represents unit count as of December 31, 2012, which may differ from unit count as of December 31, 2011, due to unit conversions or expansions.

(2) Represents net rentable square feet as of December 31, 2012, which may differ from net rentable square feet as of December 31, 2011, due to unit conversions or expansions.

The following table presents additional information regarding the occupancy of our lease-up properties by state as of December 31, 2012 and 2011. The information as of December 31, 2011, is on a pro forma basis as though all the properties owned at December 31, 2012, were under our control as of December 31, 2011.

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Lease-up Property Data Based on Location

Location	Number of Properties	Company Number of Units as of December 31, 2012(1)	Pro forma Number of Units as of December 31, 2011	Company Net Rentable Square Feet as of December 31, 2012(2)	Pro forma Net Rentable Square Feet as of December 31, 2011	Company Square Foot Occupancy % December 31, 2012	Pro forma Square Foot Occupancy % December 31, 2011
Wholly-owned properties							
Arizona	1	633	636	71,355	71,355	57.0%	36.0%
California	8	5,455	4,806	591,953	528,983	78.5%	66.6%
Florida	7	5,522	5,670	576,266	577,001	81.1%	54.4%
Maryland	2	1,675	1,677	172,035	172,035	72.5%	45.3%
Massachusetts	1	684	615	72,770	74,025	64.4%	63.8%
New Jersey	1	614	575	66,267	66,967	90.6%	75.4%
Oregon	1	731	717	75,950	75,950	92.0%	77.3%
Tennessee	1	517	505	70,700	68,750	77.1%	68.9%
Total Wholly-Owned in Lease up	**22**	**15,831**	**15,201**	**1,697,296**	**1,635,066**	**78.3%**	**59.5%**
Joint-venture properties							
California	1	971	982	88,013	87,853	88.5%	75.2%
Total Joint-Ventures in Lease up	**1**	**971**	**982**	**88,013**	**87,853**	**88.5%**	**75.2%**
Managed properties							
Colorado	2	1,086	1,100	121,044	121,494	87.9%	44.0%
Florida	6	4,113	4,174	404,548	401,422	66.2%	56.8%
Georgia	4	2,138	2,167	374,470	374,104	72.9%	62.3%
Maryland	2	1,822	955	170,295	88,200	45.5%	12.1%
Massachusetts	2	1,572	1,573	137,337	137,207	43.9%	33.0%
New York	1	908		94,545		22.2%	0.0%
North Carolina	3	1,353	643	175,592	103,655	64.5%	81.8%
Pennsylvania	1	852	866	68,409	68,609	81.3%	74.6%
Rhode Island	1	964	969	91,095	91,075	41.0%	42.4%
South Carolina	1	720	734	76,335	76,435	83.3%	65.4%
Texas	2	1,551	1,594	171,238	172,377	50.7%	26.8%
Utah	1	429		66,750		82.8%	0.0%
Total Managed in Lease up	**26**	**17,508**	**14,775**	**1,951,658**	**1,634,578**	**62.4%**	**51.5%**
Total Lease up Properties	**49**	**34,310**	**30,958**	**3,736,967**	**3,357,497**	**70.2%**	**56.0%**

(1) Represents unit count as of December 31, 2012, which may differ from unit count as of December 31, 2011, due to unit conversions or expansions.

(2) Represents net rentable square feet as of December 31, 2012, which may differ from net rentable square feet as of December 31, 2011, due to unit conversions or expansions.

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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. Mine Safety Disclosures

Not Applicable.

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 presents, 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**
2011	1st	$ 20.92	$ 17.39	$ 0.14
	2nd	22.22	19.27	0.14
	3rd	22.44	17.81	0.14
	4th	24.68	17.29	0.14
2012	1st	28.92	23.80	0.20
	2nd	30.82	27.45	0.20
	3rd	35.17	30.21	0.20
	4th	36.56	32.59	0.25

On February 15, 2013, the closing price of our common stock as reported by the NYSE was $38.70. At February 15, 2013, we had 275 holders of record of our common stock. Certain shares of the Company are held in "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

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

On April 26, 2012, we issued 684,685 shares of our common stock and the Operating Partnership paid approximately $87.7 million in cash to holders of the Operating Partnership's exchangeable senior

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notes in exchange for approximately $87.7 million in aggregate principal amount of the exchangeable senior notes at the request of holders pursuant to the terms of the indenture governing the notes.

The shares were issued in transactions exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 of Regulation D promulgated thereunder. The issuance of the shares did not involve a public offering and was made without general solicitation or advertising.

In December 2012, we issued 304,817 shares of our common stock to limited partners in the Operating Partnership in exchange for an equal number of Operating Partnership units. The shares were issued pursuant to the terms of the partnership agreement of the Operating Partnership in transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

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Item 6. Selected Financial Data

The following table presents 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,				
	2012	**2011**	**2010**	**2009**	**2008**
Revenues:					
Property rental	$ 346,874	$ 268,725	$ 232,447	$ 238,256	$ 235,695
Tenant reinsurance and management fees	62,522	61,105	49,050	41,890	37,036
Total revenues	409,396	329,830	281,497	280,146	272,731
Expenses:					
Property operations	114,028	95,481	86,165	88,935	84,522
Tenant reinsurance	7,869	6,143	6,505	5,461	5,066
Acquisition related costs, loss on sublease and severance	5,351	5,033	3,235	21,236	1,727
General and administrative	50,454	49,683	44,428	40,224	39,388
Depreciation and amortization	74,453	58,014	50,349	52,403	49,566
Total expenses	252,155	214,354	190,682	208,259	180,269
Income from operations	157,241	115,476	90,815	71,887	92,462
Interest expense	(72,294)	(69,062)	(65,780)	(69,818)	(68,671)
Interest income	6,666	5,877	5,748	6,432	8,249
Gain on repurchase of exchangeable senior notes				27,928	6,311
Loss on investments available for sale					(1,415)
Income before equity in earnings of real estate ventures and income tax expense	91,613	52,291	30,783	36,429	36,936
Equity in earnings of real estate ventures	10,859	7,287	6,753	6,964	6,932
Equity in earnings of real estate ventures gain on sale of real estate assets and purchase of joint venture partners' interests	30,630				
Income tax expense	(5,413)	(1,155)	(4,162)	(4,300)	(519)
Net income	127,689	58,423	33,374	39,093	43,349
Noncontrolling interests in Operating Partnership and other	(10,380)	(7,974)	(7,043)	(7,116)	(7,568)
Net income attributable to common stockholders	$ 117,309	$ 50,449	$ 26,331	$ 31,977	$ 35,781
Net income per common share					
Basic	$ 1.15	$ 0.55	$ 0.30	$ 0.37	$ 0.46
Diluted	$ 1.14	$ 0.54	$ 0.30	$ 0.37	$ 0.46
Weighted average number of shares					
Basic	102,290,200	92,097,008	87,324,104	86,343,029	76,966,754
Diluted	106,523,015	96,683,508	92,050,453	91,082,834	82,352,988
Cash dividends paid per common share	$ 0.85	$ 0.56	$ 0.40	$ 0.38	$ 1.00
Balance Sheet Data					
Total assets	$ 3,223,477	$ 2,517,524	$ 2,249,820	$ 2,407,566	$ 2,291,008
Total notes payable, notes payable to trusts, exchangeable senior notes and lines of credit	$ 1,577,599	$ 1,363,656	$ 1,402,977	$ 1,402,977	$ 1,286,820
Noncontrolling interests	$ 53,524	$ 54,814	$ 57,670	$ 62,040	$ 68,023
Total stockholders' equity	$ 1,491,807	$ 1,018,947	$ 881,401	$ 884,179	$ 878,770
Other Data					

Net cash provided by operating activities	$	215,879	$	144,164	$	104,815	$	81,165	$	98,391
Net cash used in investing activities	$	(606,938)	$	(251,919)	$	(83,706)	$	(104,410)	$	(244,481)
Net cash provided by (used in) financing activities	$	395,360	$	87,489	$	(106,309)	$	91,223	$	172,685

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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.

At December 31, 2012, we owned, had ownership interests in, or managed 910 operating properties in 34 states, Washington, D.C. and Puerto Rico. Of these 910 operating properties, we owned 448, we held joint venture interests in 281 properties, and our taxable REIT subsidiary, Extra Space Management, Inc., operated an additional 181 properties that are owned by third parties. These operating properties contain approximately 67.0 million square feet of rentable space in approximately 610,000 units and currently serve a customer base of over 490,000 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 state-of-the-art, web-based tracking and yield management technology, and an industry-leading revenue management system. Developed by our management team, these systems enable us to analyze, set and adjust rental rates in real time across our portfolio in order to respond to changing market conditions. We believe our systems and processes allow 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 wholly-owned self-storage properties, from management fees on the properties we manage for joint-venture partners and unaffiliated third parties, and from our tenant reinsurance program. Our management fee is generally equal to approximately 6% of cash collected from total revenues generated by the managed properties. We also receive an asset management fee of 0.5% of the total asset value from one of our joint ventures.

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

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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.

Acquire self-storage properties from strategic partners and third parties. Our acquisitions team continues to pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. We have established a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, we believe our status as an UPREIT enables flexibility when structuring deals. We continue to see available acquisitions on which to bid and are seeing increasing prices. However, we remain a disciplined buyer and look for acquisitions that will strengthen our portfolio and increase stockholder value.

Expand our management business. Our management business enables us to generate increased revenues through management fees and expand our geographic footprint. This expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We pursue strategic relationships with owners whose properties would enhance our portfolio in the event an opportunity arises to acquire the properties.

During 2012, we acquired 91 wholly-owned properties and completed the development of one wholly-owned property.

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 the power, through voting or similar rights, to direct the activities of the entity that most significantly impact the entity's economic performance, (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 have a variable interest, or combination of variable interests, that provides the enterprise with a controlling financial interest in 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 performed a qualitative analysis, including considering which party, if any, has the power to direct the activities most significant to the economic performance of each VIE and whether that party has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. 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. As of December 31, 2012, the Company had no consolidated VIEs. 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 5 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. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values based on the avoided cost to replace the current leases. We measure the value of tenant relationships based on the rent lost due to the amount of time required to replace existing customers which is based on 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 three 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 five 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

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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. 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, 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.

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 annually whether there are any indicators that the value of our investments in unconsolidated real estate ventures may be impaired 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.

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 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.

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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.

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 income tax expense 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. 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the Financial Accounting Standards Board issued ASU No. 2012-02, "*Testing Indefinite-Lived Intangible Assets for Impairment*" ("ASU 2012-02"), which provides companies with the option to first assess qualitative factors in determining whether events and circumstances indicate that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that an indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying value. Previously, companies were required to perform the quantitative impairment test at least annually. As permitted, we adopted these provisions in 2012. The adoption of ASU 2012-02 did not have a material impact on our financial position or results of operations.

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

Overview

Results for the year ended December 31, 2012, included the operations of 729 properties (449 of which were consolidated and 280 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2011, which included operations of 697 properties (357 of which were consolidated and 340 of which were in joint ventures accounted for using the equity method).

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Revenues

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

	For the Year Ended December 31,			
	2012	2011	$ Change	% Change
Revenues:				
Property rental	$ 346,874	$ 268,725	$ 78,149	29.1%
Tenant reinsurance	36,816	31,181	5,635	18.1%
Management fees	25,706	29,924	(4,218)	(14.1)%
Total revenues	$ 409,396	$ 329,830	$ 79,566	24.1%

Property Rental The increase in property rental revenues consists primarily of an increase of $56,777 associated with acquisitions completed in 2012 and 2011. We completed the acquisition of 91 properties during 2012 and 55 properties during 2011. In addition, revenues increased by $15,493 as a result of increases in occupancy and rental rates to existing customers at our stabilized properties. We have seen no significant increase in overall customer renewal rates; our average length of stay is approximately 13 months. For existing customers we seek to increase rental rates approximately 7% to 10% at least annually. Occupancy at our stabilized properties increased to 87.8% at December 31, 2012, as compared to 85.8% at December 31, 2011. Rental rates to new tenants increased by approximately 4.1% over the same period in the prior year. Finally, revenues at our lease-up properties increased by $5,879 as a result of increased occupancy.

Tenant Reinsurance The increase in tenant reinsurance revenues was partially due to the increase in overall customer participation to 67% at December 31, 2012, compared to approximately 63% at December 31, 2011. In addition, we operated 910 properties at December 31, 2012, compared to 882 at December 31, 2011.

Management Fees Our taxable REIT subsidiary, Extra Space Management, Inc., manages properties owned by our joint ventures and third parties. Management fees generally represent 6% of cash collected from properties owned by third parties and unconsolidated joint ventures. The Company also earns an asset management fee from the Storage Portfolio I ("SPI") joint venture, equal to 0.50% multiplied by the total asset value, provided certain conditions are met.

During 2011, it was discovered that the asset management fee owed to the Company by the SPI joint venture had not been recorded by either party for the five-year period ended December 31, 2010. The annual asset management fee for this period was $885. After determining that the amounts were not material either in the prior periods or the year ended December 31, 2011 for restatement purposes, $4,425 of asset management fees earned during the five-year period ended December 31, 2010, was recorded in the year ended December 31, 2011. There were no such adjustments made during the year ended December 31, 2012.

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Expenses

The following table presents information on expenses for the years indicated:

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	$ Change	% Change
Expenses:				
Property operations	$ 114,028	$ 95,481	$ 18,547	19.4%
Tenant reinsurance	7,869	6,143	1,726	28.1%
Acquisition-related costs	5,351	2,896	2,455	84.8%
Severance costs		2,137	(2,137)	(100.0)%
General and administrative	50,454	49,683	771	1.6%
Depreciation and amortization	74,453	58,014	16,439	28.3%
Total expenses	$ 252,155	$ 214,354	$ 37,801	17.6%

Property Operations The increase in property operations expense consists primarily of increases of $18,375 related to acquisitions completed in 2012 and 2011. We completed the acquisition of 91 properties during the year ended December 31, 2012 and completed the acquisition of 55 properties during the year ended December 31, 2011.

Tenant Reinsurance Tenant reinsurance expense represents the costs that are incurred to provide tenant reinsurance. The increase is due primarily to approximately $1,000 of claims related to Superstorm Sandy which affected sites in the northeastern United States in October 2012.

Acquisition-Related Costs These costs relate to acquisition activities during the periods indicated. The increases were related to increased acquisition activity when compared to the prior year. During 2012, we acquired 91 properties, compared to 55 properties during the year ended December 31, 2011.

Severance Costs The severance costs recorded during the year ended December 31, 2011, relate to severance granted to our former Executive Vice President and Chief Financial Officer, Kent Christensen, who left the Company on December 7, 2011. There were no severance costs incurred during the year ended December 31, 2012.

General and Administrative General and administrative expenses primarily include all expenses not related to our properties, including corporate payroll, travel and professional fees. The expenses are recognized as incurred. General and administrative expense increased over the prior year primarily as a result of the costs related to the management of additional properties. During the year ended December 31, 2012, we purchased 91 properties, 31 of which we did not previously manage. We did not observe any material trends specific to payroll, travel or other expense that contributed significantly to the increase in general and administrative expenses apart from the increase due to the management of additional properties. Also included in general and administrative expenses for the year ended December 31, 2011, is an expense of $1,800 related to litigation matters. There were no such expenses incurred during the year ended December 31, 2012.

Depreciation and Amortization Depreciation and amortization expense increased as a result of the acquisition and development of new properties. We acquired 91 properties and completed the development of one property during the year ended December 31, 2012.

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Other Income and Expenses

The following table presents information on other revenues and expenses for the years indicated:

	For the Year Ended December 31, 2012	2011	$ Change	% Change
Other income and expenses:				
Interest expense	$ (71,850)	$ (67,301)	$ (4,549)	6.8%
Non-cash interest expense related to amortization of discount on exchangeable senior notes	(444)	(1,761)	1,317	(74.8)%
Interest income	1,816	1,027	789	76.8%
Interest income on note receivable from Preferred Operating Partnership unit holder	4,850	4,850		
Equity in earnings of real estate ventures	10,859	7,287	3,572	49.0%
Equity in earnings of real estate assets gain on sale of real estate ventures and purchase of joint venture partners' interests	30,630		30,630	100.0%
Income tax expense	(5,413)	(1,155)	(4,258)	100.0%
Total other expense, net	$ (29,552)	$ (57,053)	$ 27,501	(48.2)%

Interest Expense The increase in interest expense was primarily the result of an increase in the total amount of debt outstanding. At December 31, 2012, our total face value of debt was $1,574,280, compared to total face value of debt of $1,359,254 at December 31, 2011. The increase was partially offset by lower average interest rates of 4.2% as of December 31, 2012, compared to 4.7% as of December 31, 2011.

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

Interest Income Interest income represents amounts earned on cash and cash equivalents deposited with financial institutions. The increase in interest income is due to higher average cash balances during the year ended December 31, 2012, primarily as a result of the cash proceeds received from stock offerings completed in April 2012 and November 2012.

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").

Equity in Earnings of Real Estate Ventures The increase in equity in earnings of real estate ventures was due primarily to an increase in revenues at joint ventures, which resulted from higher occupancy and rental rates to new and existing customers. This increase was partially offset by a slight decrease in equity in earnings due to the acquisition of our joint venture partners' interests in two joint ventures in July 2012 and November 2012.

During 2011, there was an increase of approximately $1,100 in equity in earnings as a result of the asset management fee expense recorded by the SPI joint venture in the prior year. During 2011, it was discovered that the asset management fee owed to us by the SPI joint venture had not been recorded by either party for the five-year period ended December 31, 2010. The annual asset management fee for this period was $885, offset by an annual reduction of $221 of equity in earnings of SPI. The total prior period adjustment for the years 2006 through 2010 that was recorded during the year ended

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December 31, 2011, increased asset management fee revenues by $4,425 and decreased equity in earnings by $1,106. There were no similar adjustments made during the year ended December 31, 2012.

Equity in Earnings of Real Estate Ventures Gain on Sale of Real Estate Assets and Purchase of Joint Venture Partners' Interests In December 2012, two joint ventures in which we held a 20.0% equity interest, each sold its only self-storage property. As a result of the sales, the joint ventures were dissolved, and we received cash proceeds which resulted in a gain of $1,409.

On November 30, 2012, we acquired our joint venture partner's 80.0% interest in the Storage Portfolio Bravo II LLC joint venture ("SPB II"). This transaction resulted in a non-cash gain of $10,171, which represents the increase in fair value of our 20.0% interest in SPB II from the formation of the joint venture to the acquisition date.

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

In February 2012, a joint venture in which we held a 40% equity interest sold its only self-storage property. As a result of the sale, the joint venture was dissolved, and we received cash proceeds which resulted in a gain of $5,550.

Income Tax Expense The increase in income tax expense relates primarily to increased tenant reinsurance income earned by our taxable REIT subsidiary.

Net Income Allocated to Noncontrolling Interests

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

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	$ Change	% Change
Net income allocated to noncontrolling interests:				
Net income allocated to Preferred Operating Partnership noncontrolling interests	$ (6,876)	$ (6,289)	$ (587)	9.3%
Net income allocated to Operating Partnership and other noncontrolling interests	(3,504)	(1,685)	(1,819)	108.0%
Total income allocated to noncontrolling interests:	$ (10,380)	$ (7,974)	$ (2,406)	30.2%

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 0.9% and 1.0% of the remaining net income allocated after the adjustment for the fixed distribution paid for the years ended December 31, 2012 and 2011, respectively. The amount allocated to Preferred Operating Partnership noncontrolling interest was higher in 2012 when compared to 2011, as a result of an increase in net income.

Net Income Allocated to Operating Partnership and Other Noncontrolling Interests Income allocated to the Operating Partnership represents approximately 2.9% and 3.2% of net income after the allocation of the fixed distribution paid to the Preferred OP unit holder for the years ended December 31, 2012 and 2011, respectively.

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Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010

Overview

Results for the year ended December 31, 2011, included the operations of 697 properties (357 of which were consolidated and 340 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2010, which included operations of 660 properties (296 of which were consolidated and 364 of which were in joint ventures accounted for using the equity method).

Revenues

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

	For the Year Ended December 31,			
	2011	**2010**	**$ Change**	**% Change**
Revenues:				
Property rental	$ 268,725	$ 232,447	$ 36,278	15.6%
Management and franchise fees	29,924	23,122	6,802	29.4%
Tenant reinsurance	31,181	25,928	5,253	20.3%
Total revenues	$ 329,830	$ 281,497	$ 48,333	17.2%

Property Rental The increase in property rental revenues consists primarily of an increase of $20,303 associated with acquisitions completed in 2011 and 2010, an increase of $9,934 resulting from increases in occupancy and rental rates to existing customers at our stabilized properties and an increase of $6,961 related to increases in occupancy at our lease-up properties. This is offset by a decrease of $920 related to the sale of 19 properties to a joint venture with Harrison Street Real Estate Capital LLC in January 2010.

Tenant Reinsurance The increase in tenant reinsurance revenues was partially due to the increase in overall customer participation to 63% at December 31, 2011, compared to approximately 60% at December 31, 2010. In addition, we operated 882 properties at December 31, 2011, compared to 820 at December 31, 2010.

Management Fees Our taxable REIT subsidiary, Extra Space Management, Inc., manages properties owned by our joint ventures and third parties. Management fees generally represent 6% of cash collected from properties owned by third parties and unconsolidated joint ventures. We also earn an asset management fee from the SPI joint venture, equal to 0.50% of the total asset value, provided certain conditions are met.

During 2011, it was discovered that the asset management fee owed to us by the SPI joint venture had not been recorded by either party for the five-year period ended December 31, 2010. The annual asset management fee for this period was $885. After determining that the amounts were not material either in the prior periods or the year ended December 31, 2011 for restatement purposes, $4,425 of asset management fees earned during the five-year period ended December 31, 2010, was recorded in the year ended December 31, 2011. Additionally, asset management fees earned during the year ended December 31, 2011, of $812 were recorded. The remainder of the increase in management fees is related to the increase in third-party properties under management during 2011 compared to the prior year. We managed 185 third-party properties as of December 31, 2011, compared to 160 as of December 31, 2010.

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Expenses

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

	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010	$ Change	% Change
Expenses:				
Property operations	$ 95,481	$ 86,165	$ 9,316	10.8%
Tenant reinsurance	6,143	6,505	(362)	(5.6)%
Acquisition-related costs	2,896	1,235	1,661	134.5%
Loss on sublease		2,000	(2,000)	(100.0)%
Severance costs	2,137		2,137	100.0%
General and administrative	49,683	44,428	5,255	11.8%
Depreciation and amortization	58,014	50,349	7,665	15.2%
Total expenses	$ 214,354	$ 190,682	$ 23,672	12.4%

Property Operations The increase in property operations expense consists primarily of increases of $8,481 related to acquisitions completed in 2011 and 2010, and $1,781 related to increases in expenses at our lease-up properties. These increases were offset by a decrease of $946 resulting from lower expenses at our stabilized properties, which relates mainly to decreases in property taxes and advertising and utilities expenses.

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

Acquisition-Related Costs These costs relate to acquisition activities during the periods indicated. The increase was related to increased acquisition activity when compared to the prior year. During 2011, we acquired 55 properties, compared to only 15 during the year ended December 31, 2010.

Loss on Sublease This expense is a result of a $2,000 charge recorded in the year ended December 31, 2010, relating to the bankruptcy of a tenant subleasing office space from us in Memphis, TN. The Memphis, TN office lease is a liability assumed as part of the Storage USA acquisition in July 2005. There were no such losses recorded for the year ended December 31, 2011.

Severance Costs The severance costs recorded during the year ended December 31, 2011, relate to severance granted to our former Executive Vice President and Chief Financial Officer, Kent Christensen, who left the Company on December 7, 2011. There were no severance costs incurred during the year ended December 31, 2010.

General and Administrative General and administrative expenses increased primarily as a result of costs related to the management of additional properties. During the year ended December 31, 2011, we purchased 55 properties, 40 of which we did not previously manage. In addition, we managed 185 third-party properties at December 31, 2011, compared to 160 at December 31, 2010. Also included in general and administrative expenses for the year ended December 31, 2011, is an expense of $1,800 related to litigation matters. There were no such expenses incurred during the year ended December 31, 2010.

Depreciation and Amortization Depreciation and amortization expense increased as a result of the acquisition and development of new properties. We acquired 55 properties and completed the development of five properties during the year ended December 31, 2011.

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Other Revenues and Expenses

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

	For the Year Ended December 31,			
	2011	2010	$ Change	% Change
Other revenues and expenses:				
Interest expense	$ (67,301)	$ (64,116)	$ (3,185)	5.0%
Non-cash interest expense related to amortization of discount on exchangeable senior notes	(1,761)	(1,664)	(97)	5.8%
Interest income	1,027	898	129	14.4%
Interest income on note receivable from Preferred Operating Partnership unit holder	4,850	4,850		
Equity in earnings of real estate ventures	7,287	6,753	534	7.9%
Income tax expense	(1,155)	(4,162)	3,007	(72.2)%
Total other expense, net	$ (57,053)	$ (57,441)	$ 388	(0.7)%

Interest Expense The increase in interest expense was primarily the result of costs associated with prepaying certain loans and an increase in the average amount of debt outstanding when compared to the prior year.

Non-cash Interest Expense Related to Amortization of Discount on Exchangeable Senior Notes Represents the amortization of the discount on exchangeable senior notes, which reflects the effective interest rate relative to the carrying amount of the liability.

Interest Income Interest income represents amounts earned on cash and cash equivalents deposited with financial institutions. The increase in interest income is due to slightly higher cash balances during the year ended December 31, 2011, primarily as a result of the cash proceeds received from the stock offering completed in May 2011.

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.

Equity in Earnings of Real Estate Ventures The increase in equity in earnings of real estate ventures was due primarily to an increase in revenues at joint ventures resulting from increases in occupancy and rental rates to new and existing customers. This increase was offset by a reduction of approximately $1,300 from the SPI joint venture as a result of the asset management fee expense recorded by the joint venture.

During 2011, it was discovered that the asset management fee owed to us by the SPI joint venture had not been recorded by either party for the five-year period ended December 31, 2010. The annual asset management fee for this period was $885, offset by an annual reduction of $221 of equity in earnings of SPI. The total prior period adjustment for the years 2006 through 2010 that was recorded during the year ended December 31, 2011, increased asset management fee revenues by $4,425 and decreased equity in earnings by $1,106. The remaining reduction to equity in earnings related to the net effect of the current year asset management fee of $203.

Income Tax Expense The decrease in income tax expense relates primarily to solar tax credits. The decrease related to the credit was partially offset by increased taxes resulting from increased tenant reinsurance income earned by our taxable REIT subsidiary.

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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,			
	2011	**2010**	**$ Change**	**% Change**
Net income allocated to noncontrolling interests:				
Net income allocated to Preferred Operating Partnership noncontrolling interests	$ (6,289)	$ (6,048)	$ (241)	4.0%
Net income allocated to Operating Partnership and other noncontrolling interests	(1,685)	(995)	(690)	69.3%
Total income allocated to noncontrolling interests:	$ (7,974)	$ (7,043)	$ (931)	13.2%

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 1.0% and 1.1% of the remaining net income allocated after the adjustment for the fixed distribution paid for the years ended December 31, 2011 and 2010, respectively. The amount allocated to Preferred Operating Partnership noncontrolling interest was higher in 2011 than in 2010 as our net income was higher in 2011 than it was in 2010.

Net Income Allocated to Operating Partnership and Other Noncontrolling Interests Income allocated to the Operating Partnership represents approximately 3.2% and 3.8% of net income after the allocation of the fixed distribution paid to the Preferred OP unit holder for the years ended December 31, 2011 and 2010, respectively. Losses allocated to other noncontrolling interests represents the losses allocated to partners in consolidated joint ventures.

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 and impairment write-downs of depreciable real estate assets, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that to further understand our performance, FFO should be considered along with the reported net income and cash flows in accordance with GAAP, as presented in 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

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operating activities as a measure of our liquidity, or as an indicator of our ability to make cash distributions. The following table presents the calculation of FFO for the periods indicated:

	For the Year Ended December 31,		
	2012	2011	2010
Net income attributable to common stockholders	$ 117,309	$ 50,449	$ 26,331
Adjustments:			
Real estate depreciation	64,301	52,647	47,063
Amortization of intangibles	6,763	2,375	650
Joint venture real estate depreciation and amortization	7,014	7,931	8,269
Joint venture (gain) / loss on sale of properties and purchase of partner's interest	(30,630)	185	65
Distributions paid on Preferred Operating Partnership units	(5,750)	(5,750)	(5,750)
Income allocated to Operating Partnership noncontrolling interests	10,349	7,978	7,096
Funds from operations	$ 169,356	$ 115,815	$ 83,724

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 tables present operating data for our same-store portfolio. We consider the following same-store presentation to be meaningful in regards to the properties shown below because 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 Change	For the Year Ended December 31,		Percent Change
	2012	2011		2012	2011	
Same-store rental and tenant reinsurance revenues	$ 70,751	$ 66,433	6.5%	$ 276,811	$ 259,733	6.6%
Same-store operating and tenant reinsurance expenses	21,698	21,208	2.3%	86,414	86,953	(0.6)%
Same-store net operating income	$ 49,053	$ 45,225	8.5%	$ 190,397	$ 172,780	10.2%
Non same-store rental and tenant reinsurance revenues	$ 36,686	$ 15,319	139.5%	$ 106,879	$ 40,173	166.0%
Non same-store operating and tenant reinsurance expenses	$ 12,825	$ 5,497	133.3%	$ 35,483	$ 14,671	141.9%
Total rental and tenant reinsurance revenues	$ 107,437	$ 81,752	31.4%	$ 383,690	$ 299,906	27.9%
Total operating and tenant reinsurance expenses	$ 34,523	$ 26,705	29.3%	$ 121,897	$ 101,624	19.9%
Same-store square foot occupancy as of quarter end	88.6%	86.9%		88.6%	86.9%	
Properties included in same-store	282	282		282	282	

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	For the Three Months Ended December 31,		Percent	For the Year Ended December 31,		Percent
	2011	2010	Change	2011	2010	Change
Same-store rental and tenant reinsurance revenues	$ 61,395	$ 58,026	5.8%	$ 241,001	$ 229,785	4.9%
Same-store operating and tenant reinsurance expenses	19,387	19,593	(1.1)%	78,892	79,098	(0.3)%
Same-store net operating income	$ 42,008	$ 38,433	9.3%	$ 162,109	$ 150,687	7.6%
Non same-store rental and tenant reinsurance revenues	$ 20,357	$ 9,062	124.6%	$ 58,905	$ 28,590	106.0%
Non same-store operating and tenant reinsurance expenses	$ 7,318	$ 4,430	65.2%	$ 22,732	$ 13,572	67.5%
Total rental and tenant reinsurance revenues	$ 81,752	$ 67,088	21.9%	$ 299,906	$ 258,375	16.1%
Total operating and tenant reinsurance expenses	$ 26,705	$ 24,023	11.2%	$ 101,624	$ 92,670	9.7%
Same-store square foot occupancy as of quarter end	87.8%	84.7%		87.8%	84.7%	
Properties included in same-store	253	253		253	253	

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

The increase in same-store rental revenues was primarily due to increases in occupancy and rental rates to both incoming and existing customers, and to decreases in discounts to new customers. The decreases in same-store operating expenses for the year ended December 31, 2012 were primarily due to decreases in utilities and office expenses. These decreases were partially offset by increased expenses as a result of Superstorm Sandy and higher property taxes.

Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010

The increase in same-store rental revenues was primarily due to increased rental rates to both incoming and existing customers and increased occupancy. Occupancy increased 310 basis points over the prior year. The decreases in same-store operating expenses for the year ended December 31, 2011, were primarily due to lower utility costs, a decrease in yellow page advertising and lower than anticipated snow removal costs.

CASH FLOWS

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

Cash flows provided by operating activities were $215,879 and $144,164 for the years ended December 31, 2012 and 2011, respectively. The increase when compared to the prior year was primarily due to a $69,266 increase in net income. There was also an increase in depreciation and amortization of $16,439 and an increase of $16,073 in cash received from affiliated joint ventures and related parties in 2012 when compared to 2011. These increases were offset by a $23,670 non-cash gain on the purchase of joint venture partners' interests.

Cash used in investing activities was $606,938 and $251,919 for the years ended December 31, 2012 and 2011, respectively. The increase in 2012 was primarily the result of $406,768 more cash being used to acquire new properties in 2012 compared to 2011. This increase was offset by a decrease of $42,265 in the amount paid to purchase notes receivable.

Cash provided by financing activities was $395,360 and $87,489 for the years ended December 31, 2012 and 2011, respectively. The increase in cash provided was the result of an increase of $317,239 in the net cash proceeds generated from the sale of common stock in the current year compared to 2011, along with an increase of $598,776 in cash proceeds received from notes payable and lines of credit in 2012 when compared to 2011. These increases of cash were offset by the increase of $469,484 of cash used for principal repayments on notes payable and lines of credit during 2012 when compared to 2011, the use of $87,663 of cash to repurchase exchangeable senior notes in 2012, compared to $0 in 2011, and the increase of $36,260 of dividends paid on common stock in 2012, compared to 2011.

Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010

Cash flows provided by operating activities were $144,164 and $104,815 for the years ended December 31, 2011 and 2010, respectively. The increase when compared to the prior year was due primarily to an increase in net income and a decrease in the amount of cash used to pay accounts payable and accrued expenses, which were offset by a decrease in cash received from affiliated joint ventures and related parties during 2011 compared to 2010.

Cash used in investing activities was $251,919 and $83,706 for the years ended December 31, 2011 and 2010, respectively. The increase in 2011 was primarily the result of $125,371 more cash being used to acquire new properties in 2011 compared to 2010. We also paid $51,000 to purchase a note receivable, which was offset by $860 of principal payments received in 2011, compared to $0 in 2010. Additionally, we received $15,750 in proceeds from the sale of 19 properties to a joint venture in 2010, compared to $0 in 2011. These increases in cash used in investing activities were offset by a decrease of $29,002 in the amount of cash used to fund development activities in 2011 compared to 2010.

Cash provided by financing activities was $87,489 for the year ended December 31, 2011, compared to cash used in financing activities of $106,309 for the year ended December 31, 2010. The increase in cash provided was the result of $112,349 of net cash proceeds generated from the sale of common stock in the year ended December 31, 2011, compared with $0 in 2010, along with an increase of $284,425 in cash proceeds received from notes payable and lines of credit in 2011 when compared to 2010. These increases of cash were offset by the increase of $199,947 of cash used for principal repayments on notes payable and lines of credit during 2011 when compared to 2010.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2012, we had $30,785 available in cash and cash equivalents. We intend to use this cash to repay debt scheduled to mature in 2013 and for general corporate purposes. We are required to distribute at least 90% of our net taxable income, excluding net capital gains, to our stockholders on an annual basis to maintain our qualification as a REIT.

Our cash and cash equivalents are held in accounts managed by third party financial institutions and consist of invested cash and cash in our operating accounts. During 2012, we experienced no loss or lack of access to our cash or cash equivalents; however, there can be no assurance that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

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The following table presents information on our lines of credit:

	As of December 31, 2012						
Line of Credit	Amount Drawn	Capacity	Interest Rate	Origination Date	Maturity	Basis Rate	Notes
Credit Line 1	$ 35,000	$ 75,000	2.36%	2/13/2009	2/13/2014	LIBOR plus 2.15%	(1)(4)(5)
Credit Line 2		75,000	2.41%	6/4/2010	5/31/2013	LIBOR plus 2.20%	(2)(4)(5)
Credit Line 3		40,000	2.41%	11/16/2010	11/16/2013	LIBOR plus 2.20%	(3)(4)(5)
Credit Line 4	50,000	50,000	2.36%	4/29/2011	5/1/2014	LIBOR plus 2.15%	(3)(4)(5)
	$ 85,000	$ 240,000					

(1) One year extension available

(2) One two-year extension available

(3) Two one-year extensions available

(4) Guaranteed by the Company

(5) Secured by mortgages on certain real estate assets

As of December 31, 2012, we had $1,574,280 of debt, resulting in a debt to total capitalization ratio of 27.5%. As of December 31, 2012, the ratio of total fixed rate debt and other instruments to total debt was 81.0% (including $776,381 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, 2012 was 4.2%. Certain of our real estate assets are pledged as collateral for our debt. We are subject to certain restrictive covenants relating to our outstanding debt. We were in compliance with all financial covenants at December 31, 2012.

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

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

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OFF-BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

The following table sets forth information on future payments due by period as of December 31, 2012:

	Payments due by Period:				
	Total	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**After 5 Years**
Operating leases	$ 69,396	$ 7,463	$ 12,536	$ 6,855	$ 42,542
Notes payable, notes payable to trusts and lines of credit					
Interest	364,774	63,727	103,948	62,007	135,092
Principal	1,574,280	110,483	430,922	517,568	515,307
Total contractual obligations	$ 2,008,450	$ 181,673	$ 547,406	$ 586,430	$ 692,941

As of December 31, 2012, the weighted average interest rate for all fixed rate loans was 4.6%, and the weighted average interest rate on all variable rate loans was 2.3%.

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;

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

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

We may from time to time seek to retire or repurchase our outstanding debt, as well as shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. 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, 2012, we had approximately $1,574,280 in total debt, of which approximately $298,675 was subject to variable interest rates (excluding debt with interest rate swaps). If LIBOR were to increase or decrease by 100 basis points, the increase or decrease in interest expense on the variable rate debt (excluding variable rate debt with interest rate floors) would increase or decrease future earnings and cash flows by approximately $2,600 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. ("the Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. 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, 2012 and 2011 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

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, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 28, 2013

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Extra Space Storage Inc.

Consolidated Balance Sheets

(dollars in thousands, except share data)

	December 31, 2012	December 31, 2011
Assets:		
Real estate assets, net	$ 2,991,722	$ 2,263,795
Investments in real estate ventures	106,313	130,410
Cash and cash equivalents	30,785	26,484
Restricted cash	16,976	25,768
Receivables from related parties and affiliated real estate joint ventures	11,078	18,517
Other assets, net	66,603	52,550
Total assets	$ 3,223,477	$ 2,517,524
Liabilities, Noncontrolling Interests and Equity:		
Notes payable	$ 1,369,690	$ 937,001
Premium on notes payable	3,319	4,402
Notes payable to trusts	119,590	119,590
Exchangeable senior notes		87,663
Lines of credit	85,000	215,000
Accounts payable and accrued expenses	52,299	46,353
Other liabilities	48,248	33,754
Total liabilities	1,678,146	1,443,763
Commitments and contingencies		
Noncontrolling Interests and Equity:		
Extra Space Storage Inc. stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding		
Common stock, $0.01 par value, 300,000,000 shares authorized, 110,737,205 and 94,783,590 shares issued and outstanding at December 31, 2012, and December 31, 2011, respectively	1,107	948
Paid-in capital	1,740,037	1,290,021
Accumulated other comprehensive deficit	(14,273)	(7,936)
Accumulated deficit	(235,064)	(264,086)
Total Extra Space Storage Inc. stockholders' equity	1,491,807	1,018,947
Noncontrolling interest represented by Preferred Operating Partnership units, net of $100,000 note receivable	29,918	29,695
Noncontrolling interests in Operating Partnership	22,492	24,018
Other noncontrolling interests	1,114	1,101
Total noncontrolling interests and equity	1,545,331	1,073,761
Total liabilities, noncontrolling interests and equity	$ 3,223,477	$ 2,517,524

See accompanying notes.

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Extra Space Storage Inc.

Consolidated Statements of Operations

(dollars in thousands, except share data)

	For the Year Ended December 31,		
	2012	**2011**	**2010**
Revenues:			
Property rental	$ 346,874	$ 268,725	$ 232,447
Tenant reinsurance	36,816	31,181	25,928
Management fees	25,706	29,924	23,122
Total revenues	409,396	329,830	281,497
Expenses:			
Property operations	114,028	95,481	86,165
Tenant reinsurance	7,869	6,143	6,505
Acquisition related costs	5,351	2,896	1,235
Loss on sublease			2,000
Severance costs		2,137	
General and administrative	50,454	49,683	44,428
Depreciation and amortization	74,453	58,014	50,349
Total expenses	252,155	214,354	190,682
Income from operations	157,241	115,476	90,815
Interest expense	(71,850)	(67,301)	(64,116)
Non-cash interest expense related to amortization of discount on exchangeable senior notes	(444)	(1,761)	(1,664)
Interest income	1,816	1,027	898
Interest income on note receivable from Preferred Operating Partnership unit holder	4,850	4,850	4,850
Income before equity in earnings of real estate ventures and income tax expense	91,613	52,291	30,783
Equity in earnings of real estate ventures	10,859	7,287	6,753
Equity in earnings of real estate ventures gain on sale of real estate assets and purchase of joint venture partners' interests	30,630		
Income tax expense	(5,413)	(1,155)	(4,162)
Net income	127,689	58,423	33,374
Net income allocated to Preferred Operating Partnership noncontrolling interests	(6,876)	(6,289)	(6,048)
Net income allocated to Operating Partnership and other noncontrolling interests	(3,504)	(1,685)	(995)
Net income attributable to common stockholders	$ 117,309	$ 50,449	$ 26,331
Net income per common share			
Basic	$ 1.15	$ 0.55	$ 0.30
Diluted	$ 1.14	$ 0.54	$ 0.30
Weighted average number of shares			
Basic	102,290,200	92,097,008	87,324,104
Diluted	106,523,015	96,683,508	92,050,453

See accompanying notes.

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Extra Space Storage Inc.

Consolidated Statements of Comprehensive Income

(dollars in thousands)

	For the Year Ended December 31,		
	2012	**2011**	**2010**
Net income	$ 127,689	$ 58,423	$ 33,374
Other comprehensive income:			
Change in fair value of interest rate swaps	(6,587)	(2,237)	(4,963)
Total comprehensive income	121,102	56,186	28,411
Less: comprehensive income attributable to noncontrolling interests	10,130	7,886	6,811
Comprehensive income attributable to common stockholders	$ 110,972	$ 48,300	$ 21,600

See accompanying notes

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Extra Space Storage Inc.

Consolidated Statements of Stockholders' Equity

(dollars in thousands, except share data)

	Noncontrolling Interests			Extra Space Storage Inc. Stockholders' Equity					
	Preferred Operating Partnership	Operating Partnership	Other	Shares	Par Value	Paid-in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Equity
Balances at December 31, 2009	$ 29,886	$ 31,381	$ 773	86,721,841	$ 867	$ 1,138,243	$ (1,056)	$ (253,875)	$ 946,219
Issuance of common stock upon the exercise of options				484,261	5	5,656			5,661
Restricted stock grants issued				445,230	4				4
Restricted stock grants cancelled				(64,010)					
Compensation expense related to stock-based awards						4,580			4,580
Deconsolidation of noncontrolling interests			104						104
Redemption of Operating Partnership units for cash		(4,116)							(4,116)
Investments from other noncontrolling interests			87						87
Purchase of noncontrolling interest			223						223
Net income (loss)	6,048	1,048	(53)					26,331	33,374
Other comprehensive loss	(55)	(177)					(4,731)		(4,963)
Tax effect from vesting of restricted stock grants and stock option exercises						836			836
Tax effect from contribution of property to Taxable REIT Subsidiary						(495)			(495)
Distributions to Operating Partnership units held by noncontrolling interests	(6,146)	(1,333)							(7,479)
Dividends paid on common stock at $0.40 per share								(34,964)	(34,964)

Balances at December 31, 2010	$ 29,733	$ 26,803	$ 1,134	87,587,322	$ 876	$ 1,148,820	$ (5,787)	$ (262,508)	$ 939,071
Issuance of common stock upon the exercise of options				1,388,269	14	18,608			18,622
Restricted stock grants issued				226,630	2				2
Restricted stock grants cancelled				(47,695)					
Issuance of common stock, net of offering costs				5,335,423	53	112,296			112,349
Compensation expense related to stock-based awards						5,757			5,757
Redemption of Operating Partnership units for common stock		(2,344)		293,641	3	2,341			
Redemption of Operating Partnership units for cash		(271)							(271)
Net income (loss)	6,289	1,689	(4)					50,449	58,423
Other comprehensive loss	(22)	(66)					(2,149)		(2,237)
Tax effect from vesting of restricted stock grants and stock option exercises						2,199			2,199
Distributions to Operating Partnership units held by noncontrolling interests	(6,305)	(1,793)							(8,098)
Distributions to other noncontrolling interests			(29)						(29)
Dividends paid on common stock at $0.56 per share								(52,027)	(52,027)
Balances at December 31, 2011	$ 29,695	$ 24,018	$ 1,101	94,783,590	$ 948	$ 1,290,021	$ (7,936)	$ (264,086)	$ 1,073,761

See accompanying notes.

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Extra Space Storage Inc.

Consolidated Statements of Stockholders' Equity (Continued)

(dollars in thousands, except share data)

	Noncontrolling Interests			Extra Space Storage Inc. Stockholders' Equity					
	Preferred Operating Partnership	Operating Partnership	Other	Shares	Par Value	Paid-in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Equity
Issuance of common stock upon the exercise of options				768,853	7	10,260			10,267
Restricted stock grants issued				182,052	2				2
Restricted stock grants cancelled				(16,792)					
Issuance of common stock, net of offering costs				14,030,000	140	429,448			429,588
Issuance of common stock related to settlement of exchangeable senior notes				684,685	7				7
Compensation expense related to stock-based awards						4,356			4,356
New issuance of Operating Partnership units		429							429
Redemption of Operating Partnership units for common stock		(2,479)		304,817	3	2,476			
Redemption of Operating Partnership units for cash		(155)							(155)
Net income	6,876	3,473	31					117,309	127,689
Other comprehensive loss	(61)	(189)					(6,337)		(6,587)
Tax effect from vesting of restricted stock grants and stock option exercises						3,476			3,476
Distributions to Operating Partnership units held by noncontrolling interests	(6,592)	(2,605)							(9,197)
Distributions to other noncontrolling interests			(18)						(18)

Dividends paid on common stock at $0.85 per share								(88,287)	(88,287)
Balances at December 31, 2012	$ 29,918	$ 22,492	$ 1,114	110,737,205	$ 1,107	$ 1,740,037	$ (14,273)	$ (235,064)	$ 1,545,331

See accompanying notes.

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Extra Space Storage Inc.

Consolidated Statements of Cash Flows

(dollars in thousands)

	For the Year Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 127,689	$ 58,423	$ 33,374
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	74,453	58,014	50,349
Amortization of deferred financing costs	5,889	5,583	4,354
Non-cash interest expense related to amortization of discount on exchangeable senior notes	444	1,761	1,664
Non-cash interest expense related to amortization of premium on notes payable	(1,270)		
Compensation expense related to stock-based awards	4,356	5,757	4,580
Gain on purchase of joint venture partners' interests	(23,670)		
Loss on sublease			2,000
Distributions from real estate ventures in excess of earnings	2,581	7,008	6,722
Changes in operating assets and liabilities:			
Receivables from related parties and affiliated real estate joint ventures	7,439	(8,634)	3,011
Other assets	8,746	7,533	(1,676)
Accounts payable and accrued expenses	7,220	9,837	1,856
Other liabilities	2,002	(1,118)	(1,419)
Net cash provided by operating activities	215,879	144,164	104,815
Cash flows from investing activities:			
Acquisition of real estate assets	(601,727)	(194,959)	(69,588)
Development and construction of real estate assets	(3,759)	(7,060)	(36,062)
Proceeds from sale of properties to joint venture			15,750
Investments in real estate ventures	(1,423)	(4,088)	(9,699)
Return of investment in real estate ventures	2,421	4,614	8,802
Change in restricted cash	8,792	4,730	9,036
Purchase of notes receivable	(7,875)	(50,140)	
Purchase of equipment and fixtures	(3,367)	(5,016)	(1,945)
Net cash used in investing activities	(606,938)	(251,919)	(83,706)
Cash flows from financing activities:			
Proceeds from the sale of common stock, net of offering costs	429,588	112,349	
Proceeds from notes payable and lines of credit	1,074,263	475,487	191,062
Principal payments on notes payable and lines of credit	(921,831)	(452,347)	(252,400)
Deferred financing costs	(11,607)	(6,197)	(4,160)
Repurchase of exchangeable senior notes	(87,663)		
Investments from other noncontrolling interests			87
Redemption of Operating Partnership units held by noncontrolling interest	(155)	(271)	(4,116)
Net proceeds from exercise of stock options	10,267	18,622	5,661
Dividends paid on common stock	(88,287)	(52,027)	(34,964)
Distributions to noncontrolling interests	(9,215)	(8,127)	(7,479)
Net cash provided by (used in) financing activities	395,360	87,489	(106,309)
Net increase (decrease) in cash and cash equivalents	4,301	(20,266)	(85,200)
Cash and cash equivalents, beginning of the period	26,484	46,750	131,950
Cash and cash equivalents, end of the period	$ 30,785	$ 26,484	$ 46,750

See accompanying notes.

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Extra Space Storage Inc.

Consolidated Statements of Cash Flows (Continued)

(dollars in thousands)

	For the Year Ended December 31,		
	2012	2011	2010
Supplemental schedule of cash flow information			
Interest paid, net of amounts capitalized	$ 65,687	$ 61,726	$ 60,100
Income taxes paid	831	665	6,539
Supplemental schedule of noncash investing and financing activities:			
Deconsolidation of joint ventures due to application of Accounting Standards Codification 810:			
Real estate assets, net	$	$	$ (42,739)
Investments in real estate ventures			404
Receivables from related parties and affiliated real estate joint ventures			21,142
Other assets and other liabilities			(51)
Notes payable			21,348
Other noncontrolling interests			(104)
Redemption of Operating Partnership units held by noncontrolling interests for common stock:			
Noncontrolling interests in Operating Partnership	$ 2,479	$ 2,344	$
Common stock and paid-in capital	(2,479)	(2,344)	
Tax effect from vesting of restricted stock grants and stock option exercises			
Other assets	$ 3,476	$ 2,199	$ 836
Paid-in capital	(3,476)	(2,199)	(836)
Acquisitions of real estate assets			
Real estate assets, net	$ 159,297	$ 137,177	$ 25,963
Notes payable assumed	(150,284)	(132,327)	(25,963)
Notes payable issued to seller	(8,584)	(4,850)	
OP Units Issued	(429)		

See accompanying notes.

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Extra Space Storage Inc.

Notes to Consolidated Financial Statements

December 31, 2012

(amounts in thousands, except property and share data)

1. DESCRIPTION OF BUSINESS

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

The Company invests in self-storage facilities by acquiring wholly-owned facilities or by acquiring an equity interest in real estate entities. At December 31, 2012, the Company had direct and indirect equity interests in 729 storage facilities. In addition, the Company managed 181 properties third parties bringing the total number of properties which it owns and/or manages to 910, located in 34 states, Washington, D.C. and Puerto Rico.

The Company operates in three distinct segments: (1) property management, acquisition and development; (2) rental operations; and (3) tenant reinsurance. The Company's property management, acquisition and development activities include managing, acquiring, developing and redeveloping self-storage facilities. The rental operations activities include rental operations of self-storage facilities. No single tenant accounts for more than 5% of rental income. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in the Company's self-storage facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Variable Interest Entities

The Company accounts for arrangements that are not controlled through voting or similar rights 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 the power, through voting or similar rights, to direct the activities of the entity that most significantly impact the entity's economic performance, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 have a variable interest, or combination of variable interests, that provides the enterprise with a controlling financial interest in the VIE, is considered the primary beneficiary and must consolidate the VIE.

The Company has concluded that under certain circumstances when the Company (1) enters into option agreements for the purchase of land or facilities from an entity and pays a non-refundable deposit, or (2) enters 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, the Company has performed a qualitative analysis, including considering which party, if any, has the power to direct the activities most significant to the economic performance of each VIE and whether that party has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If the Company is determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated with the Company's financial statements. Additionally, the 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.

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

Use of Estimates

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

Reclassifications

Certain amounts in the 2011 and 2010 financial statements and supporting note disclosures have been reclassified to conform to the current year presentation. Such reclassifications did not impact previously reported net income or accumulated deficit.

Fair Value Disclosures

Derivative financial instruments

Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with the Financial Accounting Standard Board's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2012, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair Value Measurements at Reporting Date Using		
Description	**December 31, 2012**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Other liabilities Cash Flow Hedge Swap Agreements	$ (15,228)	$	$ (15,228)	$

There were no transfers of assets and liabilities between Level 1 and Level 2 during the year ended December 31, 2012. The Company did not have any significant assets or liabilities that are re-measured on a recurring basis using significant unobservable inputs as of December 31, 2012 or 2011.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Long-lived assets held for use are evaluated by the Company for impairment when events or circumstances indicate that there may be impairment. The Company reviews each self-storage facility at least annually to determine if any such events or circumstances have occurred or exist. The Company

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

focuses on facilities where occupancy and/or rental income have decreased by a significant amount. For these facilities, the Company determines whether the decrease is temporary or permanent and whether the facility will likely recover the lost occupancy and/or revenue in the short term. In addition, the Company carefully reviews facilities in the lease-up stage and compares actual operating results to original projections.

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

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

The Company assesses whether there are any indicators that the value of the Company's 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 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.

As of December 31, 2012 and 2011, the Company did not have any assets or liabilities measured at fair value on a nonrecurring basis.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable-rate notes payable, lines of credit and other liabilities reflected in the consolidated balance sheets at December 31, 2012 and 2011, approximate fair value. The fair values of the Company's note receivable

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Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

from Preferred Operating Partnership unit holder, fixed rate notes payable and notes payable to trusts, and exchangeable senior notes at December 31, 2012 and 2011 were as follows:

	December 31, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Note receivable from Preferred Operating Partnership unit holder	$ 108,138	$ 100,000	$ 104,049	$ 100,000
Fixed rate notes payable and notes payable to trusts	$ 1,342,957	$ 1,275,605	$ 1,008,039	$ 938,681
Exchangeable senior notes	$	$	$ 92,265	$ 87,663

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. The construction period begins when expenditures for the real estate assets have been made and activities that are necessary to prepare the asset for its intended use are in progress. The construction period ends when the asset is substantially complete and ready for its intended use. Capitalized interest during the years ended December 31, 2012, 2011 and 2010, was $0, $752 and $2,013, respectively.

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

In connection with the Company's acquisition of self-storage facilities, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values, which are estimated using significant unobservable inputs. The value of the tangible assets, consisting of land and buildings, are determined as if vacant. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values based on the avoided cost to replace the current leases. The Company measures the value of tenant relationships based on the rent lost due to the amount of time required to replace existing customers which is based on the Company's historical experience with turnover in its facilities. Debt assumed as part of an acquisition is recorded at fair value based on current interest rates compared to contractual rates. Acquisition-related transaction costs are expensed as incurred.

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

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Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Real Estate Ventures

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

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash is comprised of letters of credit and escrowed funds deposited with financial institutions located throughout the United States relating to earnest money deposits on potential acquisitions, real estate taxes, insurance and capital expenditures.

Other Assets

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

Derivative Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Risk Management and Use of Financial Instruments

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

Conversion of Operating Partnership Units

Conversions of Operating Partnership units to common stock, when converted under the original provisions of the Operating Partnership agreement, are accounted for by reclassifying the underlying net book value of the units from noncontrolling interest to the Company's 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 for 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 as income when earned. Management 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 revenue 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. The Company accrues for property tax expense based

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Advertising Costs

The Company incurs advertising costs primarily attributable to directory, direct mail, internet and other advertising. Direct response advertising costs are deferred and amortized over the expected benefit period determined to be 12 months. As of December 31, 2012 and 2011, the Company had $0 and $860, respectively, of prepaid advertising included in other assets on the consolidated balance sheets. All other advertising costs are expensed as incurred. The Company recognized $6,026, $5,958, and $6,430 in advertising expense for the years ended December 31, 2012, 2011 and 2010, respectively.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code. In order to maintain its qualification as a REIT, among other things, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to federal income tax with respect to that portion of its income which meets certain criteria and is distributed annually to stockholders. The Company plans to continue to operate so that it meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, it would be subject to federal income tax. The Company is subject to certain state and local taxes. Provision for such taxes has been included in income tax expense on the Company's consolidated statements of operations. For the year ended December 31, 2012, 0% (unaudited) of all distributions to stockholders qualified as a return of capital.

The Company has elected to treat its corporate subsidiary, Extra Space Management, Inc. ("ESMI"), as a taxable REIT subsidiary ("TRS"). In general, the Company's TRS may perform additional services for tenants and may engage in any real estate or non-real estate related business. A TRS is subject to corporate federal income tax. ESM Reinsurance Limited, a wholly-owned subsidiary of ESMI, generates income from insurance premiums that are subject to corporate federal income tax and state insurance premiums tax.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. At December 31, 2012 and 2011, there were no material unrecognized tax benefits. Interest and penalties relating to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2012 and 2011, the Company had no interest or penalties related to uncertain tax provisions.

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Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 granted are valued at fair value and any compensation element is recognized on a straight line basis over the service periods of each award.

Net Income Per Share

Basic net income per common share is computed by dividing net income by the weighted average common shares outstanding, including unvested share-based payment awards that contain a non-forfeitable right to dividends or dividend equivalents. Diluted earnings per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the weighted average number of basic shares and the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued, and is calculated using either the treasury stock or as if-converted method. Potential common shares are securities (such as options, convertible debt, exchangeable Series A Participating Redeemable Preferred Operating Partnership units ("Preferred OP units") and exchangeable Operating Partnership units ("OP units")) that do not have a current right to participate in earnings but could do so in the future by virtue of their option or conversion right. In computing the dilutive effect of convertible securities, net income is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per share, only potential common shares that are dilutive (those that reduce earnings per share) are included.

The Company's Operating Partnership had $87,663 of exchangeable senior notes (the "Notes") that were surrendered for exchange in April 2012. Prior to their exchange, the Notes could potentially have had a dilutive effect on the Company's earnings per share calculations. The Notes were exchangeable by holders into cash and shares of the Company's common stock under certain circumstances per the terms of the indenture governing the Notes and at the time prior to surrender had an exchange price of $23.20 per share. The Company had irrevocably agreed to pay only cash for the accreted principal amount of the Notes relative to its exchange obligations, but retained the right to satisfy the exchange obligations in excess of the accreted principal amount in cash and/or common stock. Though the Company retained that right, Accounting Standards Codification ("ASC") 260, "*Earnings Per Share,"* required an assumption that shares would be used to pay the exchange obligations in excess of the accreted principal amount, and required that those shares be included in the Company's calculation of weighted average common shares outstanding for the diluted earnings per share computation. No shares were included in the diluted share calculation for the years ended December 31, 2011 or 2010 as the stock price during this time did not exceed the exchange price. No shares were included for the year ended December 31, 2012 as the Notes were no longer outstanding.

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For the years ended December 31, 2012, 2011 and 2010, options to purchase approximately 57,335 shares, 107,523 shares and 1,788,142 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive. All restricted stock grants have been included in basic and diluted shares outstanding because such shares earn a non-forfeitable dividend and carry voting rights.

The computation of net income per share is as follows:

	For the Year Ended December 31,		
	2012	2011	2010
Net income attributable to common stockholders	$ 117,309	$ 50,449	$ 26,331
Add: Income allocated to noncontrolling interest Preferred Operating Partnership and Operating Partnership	10,349	7,978	7,096
Subtract: Fixed component of income allocated to noncontrolling interest Preferred Operating Partnership	(5,750)	(5,750)	(5,750)
Net income for diluted computations	$ 121,908	$ 52,677	$ 27,677
Weighted average common shares outstanding:			
Average number of common shares outstanding basic	102,290,200	92,097,008	87,324,104
Operating Partnership units	2,755,650	3,049,935	3,356,963
Preferred Operating Partnership units	989,980	989,980	989,980
Dilutive and cancelled stock options	487,185	546,585	379,406
Average number of common shares outstanding diluted	106,523,015	96,683,508	92,050,453
Net income per common share			
Basic	$ 1.15	$ 0.55	$ 0.30
Diluted	$ 1.14	$ 0.54	$ 0.30

Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board issued ASU No. 2012-02, "*Testing Indefinite-Lived Intangible Assets for Impairment*" ("ASU 2012-02"), which provides companies with the option to first assess qualitative factors in determining whether events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the

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Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

totality of events and circumstances, an entity concludes that it is not more likely than not that an indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying value. Previously, companies were required to perform the quantitative impairment test at least annually. As permitted the Company adopted these provisions in 2012. The adoption of ASU 2012-02 did not have a material impact on the Company's financial position or results of operations.

3. REAL ESTATE ASSETS

The components of real estate assets are summarized as follows:

	December 31, 2012	December 31, 2011
Land operating	$ 755,565	$ 580,995
Land development	12,050	14,600
Buildings and improvements	2,551,886	1,934,693
Intangible assets tenant relationships	51,355	37,293
Intangible lease rights	8,656	6,150
	3,379,512	2,573,731
Less: accumulated depreciation and amortization	(391,928)	(319,302)
Net operating real estate assets	2,987,584	2,254,429
Real estate under development/redevelopment	4,138	9,366
Net real estate assets	$ 2,991,722	$ 2,263,795
Real estate assets held for sale included in net real estate assets	$ 8,600	$ 7,875

The Company amortizes to expense intangible assets tenant relationships on a straight-line basis over the average period that a tenant is expected to utilize the facility (currently estimated at 18 months). The Company amortizes to expense the intangible lease rights over the terms of the related leases. Amortization related to the tenant relationships and lease rights was $7,068, $2,633, and $907, for the years ended December 31, 2012, 2011 and 2010, respectively. The remaining balance of the unamortized lease rights will be amortized over the next 5 to 49 years.

Real estate assets held for sale included in net real estate assets as of December 31, 2012 are recorded at fair value and consisted of undeveloped land and one self-storage property.

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Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

4. PROPERTY ACQUISITIONS

The following table shows the Company's acquisition of operating properties for the years ended December 31, 2012 and 2011, and does not include purchases of raw land or improvements made to existing assets:

			Consideration Paid									Acquisition Date Fair Value					
erty tion	Number of Properties	Date of Acquisition	Total	Cash Paid	Loan Assumed	Non-cash gain	Notes Issued to/from Seller	Previous equity interest	Net Liabilities/ (Assets) Assumed	Value of OP Units Issued	Number of OP Units Issued	Land	Building	Intangible	Closing costs expensed	Source of Acquisition	N
da	1	12/28/2012	$ 4,270	$ 4,258	$	$	$	$	$ 12	$		$ 805	$ 3,345	$ 95	$ 25	Unrelated third party	
land	1	12/27/2012	13,107	10,596	2,692				(181)			4,314	8,412	206	175	Unrelated third party	
ona	1	12/27/2012	8,667	8,608					59			2,973	5,545	141	8	Unrelated third party	
da	2	12/27/2012	8,766	142			8,584		40			1,597	6,862	215	92	Unrelated third party	
da	1	12/3/2012	4,273	4,254					19			1,133	3,017	99	24	Unrelated third party	
ous states	21	11/30/2012	164,566	140,513		10,171		14,184	(302)			41,988	119,681	2,881	16	Affiliated joint venture	
Jersey	4	11/30/2012	39,336	39,283					53			10,920	26,712	825	879	Unrelated third party	
achusetts	1	11/9/2012	9,011	8,994					17			3,115	5,684	190	22	Unrelated third party	
	1	9/28/2012	7,410	7,322					88			2,063	5,202	132	13	Related party	
nia	1	9/20/2012	6,884	6,850					34			1,172	5,562	119	31	Unrelated third party	
Jersey	1	8/28/2012	13,678	13,678								1,511	11,732	241	194	Unrelated third party	
Jersey	1	8/23/2012	9,091	9,099					(8)			2,144	6,660	158	129	Unrelated third party	
Jersey	1	8/23/2012	15,475	15,431					44			1,890	13,112	269	204	Unrelated third party	
York	1	8/10/2012	15,300	15,377					(77)			2,800	12,173	269	58	Unrelated third party	
s	2	8/10/2012	9,948	9,775					173			4,869	4,826	241	12	Unrelated third party	
ornia	1	7/26/2012	4,860	2,376	2,592				(108)			2,428	2,317	93	22	Unrelated third party	
n Carolina	1	7/19/2012	4,651	4,621					30			1,784	2,755	107	5	Unrelated third party	
Jersey, York	6	7/18/2012	55,622	55,748					(126)			8,584	45,359	1,227	452	Unrelated third party	
rado	1	7/18/2012	7,085	7,038					47				6,945	137	3	Unrelated third party	
ous states	36	7/2/2012	322,516	162,705	145,000	13,499		3,355	(2,043)			67,550	246,133	8,142	691	Affiliated joint venture	
land	1	5/31/2012	6,501	6,438					11	52	1,814	1,185	5,051	147	118	Unrelated third party	
da	3	5/2/2012	14,942	14,792					150			1,933	12,682	321	6	Unrelated third party	
land	1	3/7/2012	6,284	5,886					21	377	14,193	465	5,600	128	91	Unrelated third party	
s	1	2/29/2012	9,405	9,323					82			1,036	8,133	187	49	Unrelated third party	
Totals	91		$761,648	$563,107	$150,284	$23,670	$8,584	$17,539	$(1,965)	$429	16,007	$168,259	$573,500	$16,570	$3,319		
Jersey	1	12/16/2011	$ 6,832	$ 6,806	$	$	$	$	$ 26	$		$ 1,093	$ 5,492	$ 157	$ 90	Unrelated third party	
ous	6	12/1/2011	61,797	4,941	50,140		4,850	1,817	49			15,645	46,139		13	Affiliated joint venture	
da	1	10/25/2011	5,853	5,615					238			521	5,198	113	21	Unrelated third party	
ornia	19	10/19/2011	104,029	31,464	73,527				(962)			32,270	69,496	2,164	99	Unrelated third party	
Jersey	1	10/6/2011	18,372	18,334					38			861	17,127	333	51	Unrelated third party	
s	1	8/2/2011	2,402	2,353					49			978	1,347	73	4	Unrelated third party	
land	1	8/1/2011	7,343	7,342					1			764	6,331	143	105	Unrelated third party	
land	1	7/8/2011	5,785	5,795					(10)			1,303	4,218	125	139	Unrelated third party	
, Indiana, ucky	15	6/27/2011	39,773	39,387					386			13,478	25,098	903	294	Unrelated third party	
da	1	6/22/2011	3,355	3,339					16			1,441	1,810	98	6	Unrelated third party	
rado	1	6/10/2011	4,600	2,664	1,907				29			296	4,199	98	7	Unrelated third party	
Jersey	1	6/2/2011	4,963	4,959					4			1,644	3,115	135	69	Affiliated joint venture	

nia	1	5/26/2011	10,514	5,205	5,463				(154)		932	9,349	202	31	Unrelated third party
rado	1	5/25/2011	3,540	2,262	1,290				(12)		407	3,077	61	(5)	Unrelated third party
essee	1	4/15/2011	2,539	2,514					25		652	1,791	79	17	Unrelated third party
ornia	1	4/7/2011	8,207	8,150					57		2,211	5,829	163	4	Unrelated third party
Texas	2	4/1/2011	7,262	7,205					57		1,512	5,548	188	14	Affiliated joint venture
Totals	**55**		**$297,166**	**$158,335**	**$132,327**	**$**	**$4,850**	**$ 1,817**	**$ (163)**	**$**	**$ 76,008**	**$215,164**	**$ 5,035**	**$ 959**	

(1)

This represents the acquisition of Prudential Real Estate Investors' ("PREI®") 94.9% interest in the ESS PRISA III LLC joint venture ("PRISA III") that was formed in 2005, resulting in full ownership by the Company. The joint venture owned 36 properties located in 18 states. Prior to the acquisition date, the Company accounted for its 5.1% interest in PRISA III as an equity-method investment. The acquisition date fair value of the previous equity interest was approximately $16,300 and is included as consideration transferred. The Company recognized a non-cash gain of $13,499 as a result of re-measuring its prior equity interest in PRISA III held before the acquisition.

(2)

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

(3)

This represents the acquisition of the Company's joint venture partner's 80% interest in the Storage Portfolio Bravo II LLC ("SPB II") joint venture, resulting in full ownership by the Company. The joint venture owned 21 properties in eleven states. Prior to the acquisition date, the Company accounted for its 20% interest in the joint venture as an equity-method investment. The acquisition date fair value of the previous equity interest was approximately $31,500 and is included as consideration transferred. The Company recognized a non-cash gain of $10,171 as a result of re-measuring its prior equity interest in SPB II held before the acquisition.

(4)

On May 1, 2012, the Company purchased two notes receivable from Capmark Bank for a total of $7,875. These receivables were due from Spacebox Land O'Lakes, LLC and Spacebox North Fort Myers, LLC (collectively, "Spacebox"), a third party. The notes bore interest at 15% per annum. Spacebox owned two self-storage facilities located in Florida that served as collateral for the notes. On December 27, 2012, the Company acquired the two properties owned by Spacebox in exchange for $142 of cash and forgiveness of the notes, which had an outstanding balance at the time of purchase of $8,584, including accrued interest.

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

4. PROPERTY ACQUISITIONS (Continued)

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

As noted above, during the year ended December 31, 2012, the Company acquired 91 properties. The following pro forma financial information includes 77 of the 91 properties acquired. Fourteen properties were excluded as it was impractical to obtain the historical information from the previous owners, and in total they represent an immaterial amount of total revenues. The pro forma information is based on the combined historical financial statements of the Company and 77 of the properties acquired, and presents the Company's results as if the acquisitions had occurred as of January 1, 2011:

	For the Year Ended December 31,	
	2012	**2011**
Total revenues	$ 450,787	$ 392,932
Net income attributable to common stockholders	$ 124,248	$ 56,454
Net income per common share		
Basic	$ 1.21	$ 0.61
Diluted	$ 1.20	$ 0.60

The following table summarizes the revenues and earnings related to the 91 acquisitions since the acquisition dates, included in the consolidated statements of operations for the year ended December 31, 2012:

	For the Year Ended December 31, 2012
Total revenues	$ 29,381
Net income	$ 9,225

As part of the acquisition of the 19-property portfolio purchased on October 19, 2011, the Company assumed three different mortgage loans with a total amount due of $68,681 at the closing date. At the time of purchase, the Company recorded a $4,846 premium on the debt assumed in order to record the loans at their fair values at the purchase date. This premium is included in premium on notes payable in the consolidated balance sheets and will be amortized to interest expense over the remaining term of the loans.

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December 31, 2012

(amounts in thousands, except property and share data)

5. INVESTMENTS IN REAL ESTATE VENTURES

Investments in real estate ventures consist of the following:

	Equity Ownership %	Excess Profit Participation %	Investment balance at December 31, 2012	Investment balance at December 31, 2011
Extra Space West One LLC ("ESW")	5%	40%	$ 413	$ 689
Extra Space West Two LLC ("ESW II")	5%	40%	4,404	4,501
Extra Space Northern Properties Six LLC ("ESNPS")	10%	35%	626	953
Extra Space of Santa Monica LLC ("ESSM")	48%	48%	2,655	3,015
Clarendon Storage Associates Limited Partnership ("Clarendon")	50%	50%	3,160	3,171
HSRE-ESP IA, LLC ("HSRE")	50%	50%	12,506	11,528
PRISA Self Storage LLC ("PRISA")	2%	17%	10,972	11,141
PRISA II Self Storage LLC ("PRISA II")	2%	17%	9,331	9,502
PRISA III Self Storage LLC ("PRISA III")	5%	20%		3,410
VRS Self Storage LLC ("VRS")	45%	54%	43,107	43,974
WCOT Self Storage LLC ("WCOT")	5%	20%	4,315	4,495
Storage Portfolio I LLC ("SP I")	25%	25 - 40%	12,587	11,853
Storage Portfolio Bravo II ("SPB II")	20%	20 - 45%		14,435
Extra Space Joint Ventures with Everest Real Estate Fund ("Everest")	39 - 58%	40 - 50%	3,478	3,609
U-Storage de Mexico S.A. and related entities ("U-Storage")	40%	40%		4,841
Other minority owned properties	18 - 50%	19 - 50%	(1,241)	(707)
			$ 106,313	$ 130,410

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

In accordance with ASC 810, the Company reviews all of its joint venture relationships quarterly to ensure that there are no entities that require consolidation. As of December 31, 2012, there were no previously unconsolidated entities that were required to be consolidated as a result of this review.

On December 20, 2012 two joint ventures in which the Company held 20% interests each sold their only self storage properties. Both properties were located in Illinois. As a result of the sale, the joint ventures were dissolved, and the Company received cash proceeds which resulted in a gain of $1,409.

On November 30, 2012, the Company completed the acquisition of its joint venture partner's 80% interest in SPB II, which owned 21 properties located in eleven states. Prior to the acquisition, the remaining 20% interest was owned by the Company, which accounted for its investment in SPB II using

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

5. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

the equity method. Subsequent to the acquisition, the Company had full ownership. GAAP requires an entity that completes a business combination in stages to re-measure its previously held equity interest in the acquiree at its acquisition date fair value and recognize the resulting gain or loss, if any, in earnings. The Company recorded a gain of $10,171 related to this transaction, which represents the increase in fair value of the Company's 20% interest in SPB II from the time the Company purchased its interest in the joint venture to the acquisition date.

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

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

On January 15, 2012, the Company sold its 40% equity interest in U-Storage de Mexico S.A. and related entities to its joint venture partners for $4,841. The Company received cash of $1,492 and a note receivable of $3,349. No gain or loss was recorded on the sale. At December 31, 2012, the balance of the note receivable was $1,853. The note receivable is due December 15, 2014.

On December 1, 2011, the Company purchased Everest Real Estate Fund LLC's interest in Storage Associates Holdco, LLC, a joint venture in which the Company previously held a 10% equity interest, for $4,941 in cash and a $4,850 promissory note. This joint venture owned six properties located in Florida, Illinois, Massachusetts, New York and Rhode Island. These properties became wholly-owned and consolidated as of the date of the purchase. During September 2011, the Company purchased a note payable due from Holdco to the Bank of America for $51,000. The note payable had a monthly interest rate of LIBOR plus 185 basis points and was due in March 2012. Upon the purchase of the remaining equity interest in Holdco on December 1, 2011, the balance of the note of $50,140 was assumed by the Company and was subsequently eliminated in consolidation.

On January 1, 2011, the Company paid $320 in cash to obtain its joint venture partners' equity interests in a joint venture. No gain or loss was recognized on this transaction. The joint venture owned a single stabilized self-storage property located in Pennsylvania and was previously accounted for under the equity method. The property is now wholly-owned and consolidated by the Company.

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December 31, 2012

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5. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Equity in earnings of real estate ventures consists of the following:

	For the Year Ended December 31,		
	2012	**2011**	**2010**
Equity in earnings of ESW	$ 1,263	$ 1,156	$ 1,213
Equity in earnings (losses) of ESW II	26	(8)	(31)
Equity in earnings of ESNPS	382	338	239
Equity in earnings (losses) of ESSM	314	114	(142)
Equity in earnings of Clarendon	471	465	417
Equity in earnings (losses) of HSRE	1,298	388	(161)
Equity in earnings of PRISA	821	674	641
Equity in earnings of PRISA II	643	530	481
Equity in earnings of PRISA III	187	330	262
Equity in earnings of VRS	2,849	2,279	2,221
Equity in earnings of WCOT	370	92	251
Equity in earnings (losses) of SP I	1,103	(116)	934
Equity in earnings of SPB II	430	301	184
Equity in earnings of Everest	137	179	195
Equity in earnings (losses) of U-Storage		(11)	55
Equity in earnings (losses) of other minority owned properties	565	576	(6)
	$ 10,859	$ 7,287	$ 6,753

Equity in earnings (losses) of ESW II, SP I and SPB II includes the amortization of the Company's excess purchase price of $25,713 of these equity investments over its original basis. The excess basis is amortized over 40 years.

Information (unaudited) related to the real estate ventures' debt at December 31, 2012, is presented below:

	Loan Amount	Current Interest Rate	Debt Maturity
ESW Fixed	$ 16,700	5.00%	September 2015
ESW II Swapped to fixed	19,717	3.57%	February 2019
ESNPS Fixed	34,500	5.27%	June 2015
ESSM Variable	11,125	3.01%	November 2014
Clarendon Swapped to fixed	8,151	5.93%	September 2018
HSRE Fixed	97,779	5.29%	August 2015
VRS Swapped to fixed	52,100	3.34%	July 2019
WCOT Swapped to fixed	87,500	3.34%	August 2019
SP I Fixed	96,334	4.66%	April 2018
Other minority owned properties	62,458	Various	Various

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Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

(amounts in thousands, except property and share data)

5. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Combined, condensed unaudited financial information of ESW, ESW II, ESNPS, PRISA, PRISA II, PRISA III, VRS, WCOT, SP I and SPB II and HSRE as of December 31, 2012 and 2011, and for the years ended December 31, 2012, 2011, and 2010, follows:

	December 31,	
Balance Sheets:	**2012(a)**	**2011**
Assets:		
Net real estate assets	$ 1,629,402	$ 1,971,431
Other	33,103	48,728
	$ 1,662,505	$ 2,020,159
Liabilities and members' equity:		
Notes payable	$ 404,630	$ 615,561
Other liabilities	27,383	37,558
Members' equity	1,234,492	1,367,040
	$ 1,666,505	$ 2,020,159

	For the Year Ended December 31,		
Statements of Operations:	**2012**	**2011**	**2010**
Rents and other income	$ 266,222	$ 304,499	$ 297,658
Expenses	164,285	217,114	211,283
Net income	$ 101,937	$ 87,385	$ 86,375

(a) The balance sheet information as of December 31, 2012 does not include PRISA III or SPB II, which were acquired by the Company during 2012.

Variable Interests in Unconsolidated Real Estate Joint Ventures:

The Company has interests in two unconsolidated joint ventures with unrelated third parties which are variable interest entities ("VIEs" or the "VIE JVs"). The Company holds 18% and 39% of the equity interests in the two VIE JVs, and has 50% of the voting rights in each of the VIE JVs. Qualification as a VIE was based on the determination that the equity investments at risk for each of these joint ventures were not sufficient based on a qualitative and quantitative analysis performed by the Company. The Company performed a qualitative analysis for these joint ventures to determine which party was the primary beneficiary of each VIE. The Company determined that since the powers to direct the activities most significant to the economic performance of these entities are shared equally by the Company and its joint venture partners, there is no primary beneficiary. Accordingly, these interests are recorded using the equity method.

The VIE JVs each own a single self-storage property. These joint ventures are financed through a combination of (1) equity contributions from the Company and its joint venture partners, (2) mortgage notes payable and (3) payables to the Company. The payables to the Company consist of amounts

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

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(amounts in thousands, except property and share data)

5. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

owed for expenses paid on behalf of the joint ventures by the Company as manager and mortgage notes payable to the Company. The Company performs management services for the VIE JVs in exchange for a management fee of approximately 6% of cash collected by the properties. Except as disclosed, the Company has not provided financial or other support during the periods presented to the VIE JVs that it was not previously contractually obligated to provide.

The Company guarantees the mortgage notes payable of the VIE JVs. The Company's maximum exposure to loss for these joint ventures as of December 31, 2012, is the total of the guaranteed loan balances, the payables due to the Company and the Company's investment balances in the joint ventures. The Company believes that the risk of incurring a material loss as a result of having to perform on the loan guarantees is unlikely and, therefore, no liability has been recorded related to these guarantees. Also, repossessing and/or selling the self-storage facility and land that collateralize the loans could provide funds sufficient to reimburse the Company. Additionally, the Company believes the payables to the Company are collectible.

The following table compares the liability balance and the maximum exposure to loss related to the VIE JVs as of December 31, 2012: