Extra Space Storage Inc.
Form 10-Q
August 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from to .

Commission File Number: 001-32269

EXTRA SPACE STORAGE INC.

(Exact name of registrant as specified in its charter)

Maryland	**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)

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

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 x No o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer 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 x

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, as of July 31, 2007 was 64,837,892.

EXTRA SPACE STORAGE INC.

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STATEMENT ON FORWARD-LOOKING INFORMATION

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

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

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

- changes in general economic conditions and in the markets in which we operate;
- the effect of competition from new self-storage facilities or other storage alternatives, which could cause rents and occupancy rates to decline;
- potential liability for uninsured losses and environmental contamination;
- difficulties in our ability to evaluate, finance and integrate acquired and developed properties into our existing operations and to lease up those properties, which could adversely affect our profitability;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing real estate investment trusts, which could increase our expenses and reduce our cash available for distribution;
- difficulties in raising capital at reasonable rates, which could impede our ability to grow;
- delays in the development and construction process, which could adversely affect our profitability; and
- economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2007 (unaudited)	December 31, 2006
Assets:		
Real estate assets:		
Net operating real estate assets	$ 1,641,120	$ 1,382,055
Real estate under development	35,906	35,336
Net real estate assets	1,677,026	1,417,391
Investments in real estate ventures	91,303	88,115
Cash and cash equivalents	45,790	70,801
Short-term investments	90,331	
Restricted cash	35,528	44,282
Receivables from related parties and affiliated real estate joint ventures	8,321	15,880
Other assets, net	35,640	33,356
Total assets	$ 1,983,939	$ 1,669,825
Liabilities, Minority Interests, and Stockholders Equity:		
Notes payable	$ 875,730	$ 828,584
Notes payable to trusts	119,590	119,590
Exchangeable senior notes	250,000	
Line of credit		
Derivative instrument associated with Preferred Operating Partnership units (Note 14)	15,268	
Accounts payable and accrued expenses	25,363	25,704
Other liabilities	22,960	17,234
Total liabilities	1,308,911	991,112
Commitments and contingencies		
Preferred Operating Partnership units, net of $100,000 note receivable (Note 14)	6,465	
Minority interest in Operating Partnership	37,020	34,841
Other minority interests	277	317
Stockholders equity:		
Preferred stock , $0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding		
Common Stock, $0.01 par value, 200,000,000 shares authorized, 64,833,425 and 64,167,098 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	649	642
Paid-in capital	824,088	822,181
Accumulated deficit	(193,471)	(179,268)
Total stockholders equity	631,266	643,555
Total liabilities, Preferred Operating Partnership, minority interests, and stockholders equity	$ 1,983,939	$ 1,669,825

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2007	**2006**	**2007**	**2006**
Revenues:				
Property rental	$ 48,392	$ 42,020	$ 94,623	$ 81,195
Management and franchise fees	5,143	5,181	10,351	10,340
Tenant insurance	2,688	971	4,831	1,892
Development fees	182	175	237	225
Other income	145	184	284	249
Total revenues	56,550	48,531	110,326	93,901
Expenses:				
Property operations	17,352	15,248	34,248	29,990
Tenant insurance	1,217	589	2,190	1,222
Unrecovered development and acquisition costs	159	24	409	342
General and administrative	8,968	8,747	18,208	17,992
Depreciation and amortization	9,123	9,057	17,919	18,333
Total expenses	36,819	33,665	72,974	67,879
Income before interest, minority interests and equity in earnings of real estate ventures	19,731	14,866	37,352	26,022
Interest expense	(15,437)	(12,784)	(28,833)	(24,769)
Interest income	3,668	148	5,116	630
Minority interest - Operating Partnership	(515)	(225)	(899)	(279)
Minority interests - other	56		40	
Equity in earnings of real estate ventures	1,192	1,087	2,389	2,226
Net income	$ 8,695	$ 3,092	$ 15,165	$ 3,830
Net income per common share				
Basic	$ 0.13	$ 0.06	$ 0.24	$ 0.07
Diluted	$ 0.13	$ 0.06	$ 0.23	$ 0.07
Weighted average number of shares				
Basic	64,439,138	51,625,135	64,356,827	51,606,618
Diluted	69,248,845	55,991,088	69,214,313	55,983,086
Cash dividends paid per common share	$ 0.23	$ 0.23	$ 0.46	$ 0.46

See accompanying notes to unaudited condensed consolidated financial statements.

Extra Space Storage Inc.
Condensed Consolidated Statement of Stockholders Equity
(in thousands, except share data)
(unaudited)

	Common Stock Shares	Par Value	Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
Balances at December 31, 2006	64,167,098	$ 642	$ 822,181	$ (179,268)	$ 643,555
Issuance of common stock upon the exercise of options	76,048	1	1,032		1,033
Restricted stock grants issued	90,529	1			1
Restricted stock grants cancelled	(600)				
Conversion of Contingent Conversion Shares to common stock	500,350	5			5
Compensation expense related to stock-based awards			875		875
Net income				15,165	15,165
Dividends paid on common stock at $0.455 per share				(29,368)	(29,368)
Balances at June 30, 2007	64,833,425	$ 649	$ 824,088	$ (193,471)	$ 631,266

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six months ended June 30, 2007	2006
Cash flows from operating activities:		
Net income	$ 15,165	$ 3,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,919	18,333
Amortization of deferred financing costs	1,560	1,546
Stock compensation expense	875	1,016
Income allocated to minority interests	859	279
Distributions from operations of real estate ventures in excess of earnings	2,332	2,280
Changes in operating assets and liabilities:		
Receivables from related parties	7,559	11,890
Other assets	3,353	5,349
Accounts payable and accrued expenses	(341)	(8,775)
Other liabilities	2,624	516
Net cash provided by operating activities	51,905	36,264
Cash flows from investing activities:		
Acquisition of real estate assets	(98,148)	(87,964)
Development and construction of real estate assets	(19,381)	(15,118)
Proceeds from sale of real estate assets		728
Investments in real estate ventures	(6,022)	(4,835)
Net purchases of short-term investments	(90,331)	
Change in restricted cash	8,754	(11)
Principal payments received on notes receivable		118
Purchase of equipment and fixtures	(501)	(768)
Net cash used in investing activities	(205,629)	(107,850)
Cash flows from financing activities:		
Proceeds from exchangeable senior notes	250,000	
Proceeds from notes payable, notes payable to trusts and line of credit	46,147	97,602
Principal payments on notes payable and line of credit	(30,137)	(24,598)
Deferred financing costs	(6,408)	(647)
Loan to Preferred Operating Partnership unit holder	(100,000)	
Redemption of Operating Partnership units held by minority interest	(775)	
Net proceeds from exercise of stock options	1,033	127
Dividends paid on common stock	(29,368)	(23,561)
Distributions to Operating Partnership units held by minority interest	(1,779)	(1,740)
Net cash provided by financing activities	128,713	47,183
Net decrease in cash and cash equivalents	(25,011)	(24,403)
Cash and cash equivalents, beginning of the period	70,801	28,653
Cash and cash equivalents, end of the period	$ 45,790	$ 4,250

	Six months ended June 30, 2007	2006
Supplemental schedule of cash flow information		
Interest paid, net of amounts capitalized	$ 24,931	$ 22,900
Supplemental schedule of noncash investing and financing activities:		
Acquisitions:		
Real estate assets	$ 157,079	$ 21,009
Notes payable	(31,010)	(7,926)
Notes receivable		(10,298)
Preferred Operating Partnership units	(121,733)	
Investment in real estate ventures	(502)	(2,785)
Minority interest in Operating Partnership	(3,834)	

See accompanying notes to unaudited condensed consolidated financial statements.

Extra Space Storage Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)
Amounts in thousands, except share data

1. ORGANIZATION

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

The Company invests in self-storage facilities by acquiring or developing wholly-owned facilities or facilities held through joint ventures with third parties. At June 30, 2007, the Company had direct and indirect equity interests in 585 storage facilities located in 33 states and Washington, D.C.

The Company operates in two distinct segments: (1) property management, acquisition and development; and (2) rental operations. The Company s property management, acquisition and development activities include managing, acquiring, developing and selling self-storage facilities. The rental operations activities include rental operations of self-storage facilities. No single tenant accounts for more than 5% of rental income.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of results that may be expected for the year ending December 31, 2007. The Condensed Consolidated Balance Sheet as of December 31, 2006 has been derived from the Company s audited financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission (SEC).

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

Recently Issued Accounting Standards

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

The Company has elected to early adopt Topic D-109 which specifically relates to the AAAAA Rent-A-Space acquisition that was completed during the quarter ended June 30, 2007. See Note 14.

3. NET INCOME PER SHARE

Basic earnings per common share is computed by dividing net income by the weighted average common shares outstanding, less non-vested restricted stock. 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 number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued and is calculated using either the treasury stock or if converted method. Potential common shares are securities (such as options, warrants, convertible debt, Contingent Conversion Shares (CCS), Contingent Conversion Units (CCU), exchangeable preferred Operating Partnership units and convertible Operating Partnership units) that do not have a current right to participate in earnings but could do so in the future by virtue of their option or conversion right. In computing the dilutive effect of convertible securities, net income or loss is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per share, only potential common shares that are dilutive, those that reduce earnings per share, are included.

The Company has $250.0 million of exchangeable senior notes issued and outstanding that also can potentially have a dilutive effect on its earnings per share calculations. The exchangeable senior notes are exchangeable by holders into shares of the Company s common stock under certain circumstances per the terms of the indenture governing the exchangeable senior notes. The exchangeable senior notes are not exchangeable unless the price of the Company s common stock is greater than or equal to 130% of the applicable exchange price for a specified period during a quarter, or unless certain other events occur. The exchange price was $23.48 per share at June 30, 2007, and could change over time as described in the indenture. The price of the Company s common stock did not exceed 130% of the exchange price for the specified period of time during the second quarter of 2007, therefore holders of the exchangeable senior notes may not elect to convert them during the third quarter of 2007.

The Company has irrevocably agreed to pay only cash for the accreted principal amount of the exchangeable senior notes relative to its exchange obligations, but has retained the right to satisfy the exchange obligations in excess of the accreted principal amount in cash and/or common stock. Though the Company has retained that right, FAS 128, Earnings Per Share, requires an assumption that shares will be used to pay the exchange obligations in excess of the accreted principal amount, and requires that those shares be included in the Company s calculation of weighted average common shares outstanding for diluted earnings per share computation. No shares were included in the computation at June 30, 2007 because there was no excess over the accreted principal for the period.

For the purposes of computing the diluted impact on earnings per share of the potential conversion of Series A Participating Redeemable Preferred Operating Partnership units into common shares, where the Company has the option to redeem in cash or shares as discussed in Note 14 and where the Company has stated the positive intent and ability to settle at least $115 million of the instrument in cash (or net settle a portion of the preferred Operating Partnership units against the related outstanding note receivable), only the amount of the instrument in excess of $115 million is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by paragraph 29 of FAS 128. As of June 30, 2007 only nine of the ten properties had closed. As such, $106,465 (the pro rata portion of the $115 million referenced above) was excluded from the calculation.

For the three months ended June 30, 2007 and 2006, options to purchase approximately 325,934 and 1,143,380 shares of common stock, and for the six months ended June 30, 2007 and 2006, options to purchase approximately 204,315 and 1,148,173 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

The computation of net income per share is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net income	$ 8,695	$ 3,092	$ 15,165	$ 3,830
Add:				
Income allocated to minority interest - Operating Partnership	515	225	899	279
Net income for diluted computations	$ 9,210	$ 3,317	$ 16,064	$ 4,109
Weighted average common shares oustanding:				
Average number of common shares outstanding - basic	64,439,138	51,625,135	64,356,827	51,606,618
Operating Partnership units	4,012,379	3,825,787	4,012,379	3,825,787
Preferred Operating Partnership units	49,949		25,113	
Dilutive stock options, restricted stock and CCS/CCU conversions	747,379	540,166	819,995	550,681
Average number of common shares outstanding - diluted	69,248,845	55,991,088	69,214,313	55,983,086
Net income per common share				
Basic	$ 0.13	$ 0.06	$ 0.24	$ 0.07
Diluted	$ 0.13	$ 0.06	$ 0.23	$ 0.07

4. REAL ESTATE ASSETS

The components of real estate assets are summarized as follows:

	June 30, 2007	December 31, 2006
Land	$ 419,038	$ 361,569
Buildings and improvements	1,296,813	1,085,269
Intangible assets - tenant relationships	29,937	25,436
Intangible lease rights	5,900	3,400
	1,751,688	1,475,674
Less: accumulated depreciation and amortization	(110,568)	(93,619)
Net operating real estate assets	1,641,120	1,382,055
Real estate under development	35,906	35,336
Net real estate assets	$ 1,677,026	$ 1,417,391

5. PROPERTY ACQUISITIONS

The following table shows the Company s acquisition of operating properties for the six months ended June 30, 2007 and does not include purchases of raw land or improvements made to existing assets:

Property Location(s)	Number of Properties	Date of Acquisition	Total Consideration	Cash Paid	Loan Assumed	Net Liabilities / (Assets) Assumed	Value of OP Units Issued	Number of OP Units Issued	Source of Acquisition	Notes
California	1	6/26/2007	$ 11,216	$ 196	$ 2,822	$ 1	$ 8,197	61,398	Unrelated third party	(1)
California (6) & Hawaii (2)	8	6/25/2007	126,623	11,154		1,933	113,536	847,677	Unrelated third party	(1)
Georgia	3	6/14/2007	13,693	13,594		99			Unrelated franchisee	
California	1	6/14/2007	18,703	867	14,062	(60)	3,834	218,693	Unrelated third party	(2)
Maryland	1	6/6/2007	14,942	8,128	6,834	(20)			Unrelated third party	
California	1	6/1/2007	4,020	4,036		(16)			Unrelated third party	
Florida	1	5/31/2007	8,975	8,882		93			Unrelated third party	
California	1	5/24/2007	5,585	5,575		10			Unrelated third party	
Maryland	1	4/17/2007	12,670	5,428	7,292	(50)			Unrelated third party	
Florida	1	3/27/2007	6,320	6,257		63			Unrelated franchisee	
Maryland	1	1/11/2007	14,334	14,348		(14)			Unrelated franchisee	
Tennessee	1	1/5/2007	3,684	3,672		12			Unrelated franchisee	
Arizona	1	1/2/2007	4,361	4,527		(166)			Related joint venture	
Total	22		$ 245,126	$ 86,664	$ 31,010	$ 1,885	$ 125,567	1,127,768		

Notes:

(1) - Preferred Operating Partnership Units

(2) - Common Operating Partnership Units

6. INVESTMENTS IN REAL ESTATE VENTURES

Investments in real estate ventures consisted of the following:

	Excess Profit Participation %	Equity Ownership %	Investment balance at June 30, 2007	December 31, 2006
Extra Space West One LLC (ESW)	40%	5%	$ 1,742	$ 1,918
Extra Space Northern Properties Six, LLC (ESNPS)	35%	10%	1,684	1,757
PRISA Self Storage LLC (PRISA)	17%	2%	13,303	13,393
PRISA II Self Storage LLC (PRISA II)	17%	2%	10,839	10,821
PRISA III Self Storage LLC (PRISA III)	20%	5%	4,513	4,534
VRS Self Storage LLC (VRS)	20%	5%	4,584	4,547
WCOT Self Storage LLC (WCOT)	20%	5%	5,308	5,287
Storage Portfolio I, LLC (SP I)	40%	25%	18,743	19,260
Storage Portfolio Bravo II (SPB II)	45%	20%	14,956	15,264
Other minority owned properties	10-50%	10-50%	15,631	11,334
			$ 91,303	$ 88,115

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

On March 1, 2007, the Company acquired a 39.5% interest in U-Storage de Mexico S.A., an existing Mexican corporation (U-Storage), which currently manages, develops, owns and operates self storage facilities in Mexico. Included in Other Minority Owned Properties is $5,086 relating to the Company s investment in Mexico. Kenneth T. Woolley, a former Senior Vice President of the Company and son of Kenneth M. Woolley, the CEO of the Company, also acquired a 0.5% interest in U-Storage de Mexico S.A.

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Equity in earnings of ESW	$ 348	$ 341	$ 696	$ 681
Equity in earnings of ESNPS	41	38	87	74
Equity in earnings of PRISA	185	132	355	256
Equity in earnings of PRISA II	147	115	277	221
Equity in earnings of PRISA III	71	30	134	53
Equity in earnings of VRS	62	41	123	75
Equity in earnings of WCOT	77	40	147	73
Equity in earnings of SP I	248	301	453	601
Equity in earnings of SPB II	181	242	371	473
Equity in earnings/(losses) of other minority owned properties	(168)	(193)	(254)	(281)
	$ 1,192	$ 1,087	$ 2,389	$ 2,226

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

7. SHORT-TERM INVESTMENTS

The Company accounts for its investments in debt and equity securities according to the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires securities classified as available-for-sale to be stated at fair value. Adjustments to fair value of available-for-sale securities are recorded as a component of other comprehensive income (loss). A decline in the market value of equity securities below cost, that is deemed to be other than temporary, results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. At June 30, 2007, the Company had $90,331 in highly-liquid auction rate securities (ARS), government and corporate bonds and variable rate demand notes classified as available-for-sale securities. Although these ARS have long-term stated contractual maturities, they can be presented for redemption at auction when rates are reset which is typically every 7, 28 or 35 days. The Company had no realized or unrealized gains or losses related to these securities during the three and six months ended June 30, 2007. All income related to these investments was recorded as interest income. In accordance with the Company s investment policy, the Company only invests in ARS with high credit quality issuers and limits the amount of investment exposure to any one issuer.

8. NOTES PAYABLE

The components of notes payable are summarized as follows:

	June 30, 2007	December 31, 2006
Fixed Rate		
Mortgage and construction loans with banks bearing interest at fixed rates between 4.65% and 8.33%. The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between March 1, 2008 and January 1, 2023.	$ 811,008	$ 743,511
Variable Rate		
Mortgage and construction loans with banks bearing floating interest rates (including loans subject to interest rate swaps) based on LIBOR. Interest rates based on LIBOR are between LIBOR plus 0.66% (5.98% and 6.01% at June 30, 2007 and December 31, 2006, respectively) and LIBOR plus 2.00% (7.32% and 7.35% at June 30, 2007 and December 31, 2006, respectively). The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between October 25, 2007 and June 11, 2009.	64,722	85,073
	$ 875,730	$ 828,584

Real estate assets are pledged as collateral for the notes payable. The Company is subject to certain restrictive covenants relating to the outstanding notes payable. The Company was in compliance with all covenants at June 30, 2007.

In October 2004, the Company entered into a reverse interest rate swap agreement (Swap Agreement) to float $61,770 of 4.30% fixed interest rate secured notes due in September 2009. Under this Swap Agreement, the Company will receive interest at a fixed rate of 4.30% and pay interest at a variable rate equal to LIBOR plus 0.66%. The Swap Agreement matures at the same time the notes are due. This Swap Agreement is a fair value hedge, as defined by SFAS No. 133, and the fair value of the Swap Agreement is recorded as an asset or liability, with an offsetting adjustment to the carrying value of the related note payable. Monthly variable interest payments are recognized as an increase or decrease in interest expense.

The estimated fair value of the Swap Agreement at June 30, 2007 and December 31, 2006 was reflected as an other liability of $1,800 and $1,925, respectively. The Company recorded additional interest expense relating to the Swap Agreement of $264 and $186 for the three months ended June 30, 2007 and 2006, respectively. Interest expense was increased by $525 and reduced by $148 for the six months ended June 30, 2007 and 2006, respectively.

9. NOTES PAYABLE TO TRUSTS

During July 2005, ESS Statutory Trust III (the Trust III), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership, issued an aggregate of $40.0 million of preferred securities which mature on July 31, 2035. In addition, the Trust III issued 1,238 of Trust common securities to the Operating Partnership for a purchase price of $1.2 million. On July 27, 2005, the proceeds from the sale of the preferred and common securities of $41.2 million were loaned in the form of a note to the Operating Partnership (Note 3). Note 3 has a fixed rate of 6.91% through July 31, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum. The interest on Note 3, payable quarterly, will be used by the Trust III to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after July 27, 2010.

During May 2005, ESS Statutory Trust II (the Trust II), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership, issued an aggregate of $41.0 million of preferred securities which mature on June 30, 2035. In addition, the Trust II issued 1,269 of Trust common securities to the Operating Partnership for a purchase price of $1.3 million. On May 24, 2005, the proceeds from the sale of the preferred and common securities of $42.3 million were loaned in the form of a note to the Operating Partnership (Note 2). Note 2 has a fixed rate of 6.67% through June 30, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum.

The interest on Note 2, payable quarterly, will be used by the Trust II to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

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

The Company follows Financial Accounting Standards Board (FASB) Intrepretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R), which addresses the consolidation of variable interest entities (VIEs). Under FIN 46R, Trust, Trust II and Trust III are VIEs that are not consolidated because the Company is not the primary beneficiary. A debt obligation has been recorded in the form of notes as discussed above for the proceeds, which are owed to the Trust, Trust II, and Trust III by the Company.

10. EXCHANGEABLE SENIOR NOTES

On March 27, 2007, our Operating Partnership issued $250.0 million of its 3.625% Exchangeable Senior Notes due April 1, 2027 (the Notes). Costs incurred to issue the Notes were approximately $5.7 million. These costs are being amortized as an adjustment to interest expense over five years, which represents the estimated term of the Notes, and are included in other assets in the condensed consolidated balance sheet as of June 30, 2007. The Notes are general unsecured senior obligations of the Operating Partnership and are fully guaranteed by the Company. Interest is payable on April 1 and October 1 of each year beginning October 1, 2007 until the maturity date of April 1, 2027. The Notes bear interest at 3.625% per annum and contain an exchange settlement feature, which provides that the Notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the Notes) and, with respect to any excess exchange value, for cash, shares of our common stock or a combination of cash and shares of our common stock at an initial exchange rate of approximately 42.5822 shares per $1,000 principal amount of Notes at the option of the Operating Partnership.

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

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

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

11. LINE OF CREDIT

The Company, as guarantor, and its Operating Partnership have entered into a $100.0 million revolving line of credit, which includes a $10.0 million swingline subfacility (the Credit Facility).

The Credit Facility has an interest rate of 175 basis points over LIBOR (7.07% and 7.10% at June 30, 2007 and December 31, 2006, respectively). The Operating Partnership intends to use the proceeds of the Credit Facility for general corporate purposes. As of June 30, 2007, the Credit Facility had approximately $81 million of capacity based on the assets collateralizing the Credit Facility. No amounts were outstanding on the line of credit at June 30, 2007 or December 31, 2006. The maturity date on the line of credit is September 2007. The Credit Facility is collateralized by mortgages on certain real estate assets.

12. RELATED PARTY AND AFFILIATED REAL ESTATE JOINT VENTURE TRANSACTIONS

The Company provides management and development services for certain joint ventures, franchise, third party and other related party properties. Management agreements generally provide for management fees of 6% of cash collected from properties for the management of operations at the self-storage facilities. The Company earns development fees of 4%-6% of budgeted costs on developmental projects.

Management fee revenue for related party and affiliated real estate joint ventures is summarized as follows:

		Three months ended June 30,		Six months ended June 30,	
Entity	**Type**	**2007**	**2006**	**2007**	**2006**
ESW	Affiliated real estate joint ventures	$ 109	$ 103	$ 218	$ 204
ESNPS	Affiliated real estate joint ventures	109	104	216	206
PRISA	Affiliated real estate joint ventures	1,294	1,259	2,595	2,491
PRISA II	Affiliated real estate joint ventures	1,048	1,018	2,090	2,018
PRISA III	Affiliated real estate joint ventures	474	456	942	908
VRS	Affiliated real estate joint ventures	283	280	568	553
WCOT	Affiliated real estate joint ventures	387	364	768	723
SP I	Affiliated real estate joint ventures	316	303	626	601
SPB II	Affiliated real estate joint ventures	254	261	516	517
Extra Space Development (ESD)	Related party	188	110	355	206
Various	Franchisees, third parties and other	681	923	1,457	1,913
		$ 5,143	$ 5,181	$ 10,351	$ 10,340

Development fee revenue for related party and affiliated real estate joint ventures is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
Type	**2007**	**2006**	**2007**	**2006**
Affiliated real estate joint ventures	$ 182	$ 122	$ 237	$ 147
Related party		53		78
	$ 182	$ 175	$ 237	$ 225

Effective January 1, 2004, the Company entered into a license agreement with Centershift, a related party software provider, to secure a perpetual right for continued use of STORE (the site management software used at all sites operated by the Company) in all aspects of the Company s property acquisition, development, redevelopment and operational activities. The Company paid Centershift $266 and $190 for the three months ended June 30, 2007 and 2006, respectively, and $455 and $368 for the six months ended June 30, 2007 and 2006, respectively, relating to the purchase of software and to license agreements.

Related party and affiliated real estate joint ventures balances are summarized as follows:

	June 30, 2007	December 31, 2006
Receivables:		
Development fees	$ 2,869	$ 2,633
Other receivables from properties	5,452	13,247
	$ 8,321	$ 15,880

Other receivables from properties consist of amounts due for management fees and expenses paid by the Company on behalf of the managed properties. The Company believes that all of these related party and affiliated joint venture receivables are fully collectible. The Company did not have any payables to related parties at June 30, 2007 or December 31, 2006.

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13. MINORITY INTEREST IN OPERATING PARTNERSHIP

The Company s interest in its properties is held through the Operating Partnership. ESS Holding Business Trust I, a wholly owned subsidiary of the Company, is the sole general partner of the Operating Partnership. The Company, through ESS Holding Business Trust II, a wholly owned subsidiary of the Company, is also a limited partner of the Operating Partnership. Between its general partner and limited partner interests, the Company held a 94.17% majority ownership interest therein as of June 30, 2007. The remaining ownership interests in the Operating Partnership of 5.83% are held by certain former owners of assets acquired by the Operating Partnership, which include a director and officers of the Company.

The minority interest in the Operating Partnership represents Operating Partnership units that are not owned by the Company. In conjunction with the formation of the Company and as a result of subsequent acquisitions, certain persons and entities contributing interests in properties to the Operating Partnership received limited partnership units in the form of either Operating Partnership units or Contingent Conversion Units. Limited partners who received Operating Partnership units in the formation transactions or in exchange for contributions for interests in properties have the right to require the Operating Partnership to redeem part or all of their Operating Partnership units for cash based upon the fair market value of an equivalent number of shares of the Company s common stock at the time of the redemption. Alternatively, the Company may, at its option, elect to acquire those Operating Partnership units in exchange for shares of its common stock on a one-for-one basis, subject to anti-dilution adjustments provided in the Operating Partnership agreement.

As of June 30, 2007, the Operating Partnership had 4,012,379 and 174,307 Operating Partnership units and CCUs outstanding, respectively.

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

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

As of June 30, 2007, there were 25,739 CCUs converted to Operating Partnership units. Based on the performance of the properties as of June 30, 2007, an additional 20,198 CCUs became eligible for conversion. The board of directors approved the conversion of these CCUs on August 1, 2007 as per the Company s charter, and the units were issued on August 3, 2007.

14. PREFERRED OPERATING PARTNERSHIP UNITS

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

On June 25 and 26, 2007, nine of the ten properties were contributed to the Operating Partnership in exchange for consideration totaling $137.8 million. Preferred OP units totaling 909,075, with a value of $121.7 million, were issued along with the assumption of approximately $14.2 million of third-party debt, of which $11,381 was paid off at close. The final property was purchased by the Company on August 1, 2007.

On June 25, 2007, the Company loaned the holders of the Preferred OP Units $100.0 million. The receivable bears interest at 4.85%, and is due September 1, 2017. The loan is secured by the borrower s Preferred OP Units. In addition, any conversion of the Preferred OP Units prior to the maturity date requires repayment of the loan as of the date of the Preferred OP Unit

redemption. Preferred OP Units are shown on the balance sheet net of the $100.0 million loan under the guidance in EITF No. 85-1, *Classifying Notes Receivable for Capital* because the borrower under the loan receivable is also the holder of the Preferred OP Units.

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

Per the Partnership Agreement, Preferred OP Units in the amount of $115.0 million bear a fixed priority return of 5% and have a fixed liquidation value of $115.0 million. The remaining balance will participate in distributions with and have a liquidation value equal to that of the common Operating Partnership units. Included in the June 30, 2007 financials statements was the pro rata amount of $106,464 related to the $115.0 million due to the Company not closing on the final property until August 1, 2007. The Preferred OP Units will be redeemable at the option of the holder on or after September 1, 2008, which redemption obligation may be satisfied, at the Company s option, in cash or shares of its common stock.

In accordance with SFAS 133 *Accounting for Derivative Instruments and Hedging Activities*, SFAS 150 *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* EITF 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock,* EITF Topic D-109, *Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133,* and Accounting Series Release (ASR) No. 268*, Presentation in Financial Statements of Redeemable Preferred Stocks,* the Preferred OP Units were classified as a hybrid instrument such that the value of the units associated with the fixed return are classified in mezzanine after total liabilities on the balance sheet and before stockholders equity. The remaining balance that participates in distributions equal to that of common stock has been identified as an embedded derivative and has been classified as a liability on the balance sheet and is marked to fair value on a quarterly basis with any adjustment being recorded to the income statement. As of June 30, 2007, the carrying value of the obligation associated with the Preferred OP Units approximated fair value.

The following table summarizes the components of the transaction:

$ 121,733	Total amount of Preferred OP Units issued at June 30, 2007
(15,268)	Derivative instrument associated with the Preferred OP Units presented as a liability
106,465	Value of Preferred OP units considered as mezzanine equity
(100,000)	Less note receivable to Preferred OP unit holder
$ 6,465	Net value of Preferred OP units considered as mezzanine equity

15. STOCKHOLDERS EQUITY

The Company s charter provides that it can issue up to 200,000,000 shares of common stock, $0.01 par value per share, 4,100,000 Contingent Conversion Shares, $.01 par value per share, and 50,000,000 shares of preferred stock, $0.01 par value per share. As of June 30, 2007, 64,833,425 shares of common stock were issued and outstanding, 3,388,493 CCSs were issued and outstanding and no shares of preferred stock were issued and outstanding. All stockholders of the Company s common stock are entitled to receive dividends and to one vote on all matters submitted to a vote of stockholders.

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

While any CCSs remain outstanding, a majority of the Company s independent directors must review and approve the net

operating income calculation for each measurement period and also must approve any sales of any of the 14 wholly-owned early-stage lease-up properties.

As of June 30, 2007, there were 500,350 CCSs converted to common stock. Based on the performance of the properties as of June 30, 2007, an additional 392,648 CCSs became eligible for conversion. The board of directors approved the conversion of these CCSs on August 1, 2007 as per the Company s charter, and the shares were issued on August 3, 2007.

16. STOCK-BASED COMPENSATION

Options

The Company has the following two stock option plans under which shares were available for grant at June 30, 2007: 1) the 2004 Long-Term Incentive Compensation Plan, and 2) the 2004 Non-Employee Directors Share Plan. Under the terms of the plans, the exercise price of an option is the fair value of the stock on the date of grant. Each option becomes exercisable after the period or periods specified in the award agreement, which generally do not exceed 10 years from the date of grant. Options are exercisable at such times and subject to such terms as determined by the Compensation, Nominating and Governance Committee; options may not be exercised if such exercise would cause a violation of the ownership limit in the Company s charter. Unless otherwise determined by the Compensation, Nominating and Governance Committee at the time of grant, stock options vest ratably over a four-year period beginning on the date of grant.

The following assumptions were used to estimate the fair value of options granted during the six months ended June 30, 2007 and 2006 using the Black-Scholes option-pricing model:

	Six Months Ended June 30,			
	2007		2006	
Expected volatility	23	%	22	%
Dividend yield	5.8	%	6.4	%
Risk-free interest rate	4.9	%	4.7	%
Average expected term (years)	5		5	

The Black-Scholes model incorporates assumptions to value stock based awards. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The Company uses actual historical data to calculate the expected price volatility and average expected term. The forfeiture rate, which is estimated at a weighted average of 18.93% of unvested options outstanding as of June 30, 2007, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

The following table summarizes the Company s activities with respect to its stock option plans:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value as of June 30, 2007
Outstanding at December 31, 2006	2,564,563	$ 13.92		
Granted	321,000	19.61		
Exercised	(76,048)	13.63		
Forfeited	(104,251)	14.32		
Outstanding at June 30, 2007	2,705,264	$ 14.53	7.85	$ 6,256,459
Vested and Expected to Vest	1,973,200	$ 14.34	7.77	$ 4,837,556
Ending Exercisable	836,397	$ 13.54	7.47	$ 2,475,896

The aggregate intrinsic value in the table above represents the total value (the difference between the Company s closing stock price on the last trading day of the second quarter of 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2007. The amount of aggregate intrinsic value will change based on the fair market value of the Company s stock.

The Company recorded compensation expense relating to outstanding options of $196 and $250 for the three months ended June 30, 2007 and 2006, respectively, and $419 and $450 for the six months ended June 30, 2007 and 2006, respectively. The Company received cash from the exercise of options of $305 and $36 for the three months ended June 30, 2007 and 2006, respectively, and $1,033 and $127 for the six months ended June 30, 2007 and 2006, respectively. At June 30, 2007, there was $1,422 of total unrecognized compensation expense related to non-vested stock options under the Company s 2004 Long-Term Incentive Compensation Plan. That cost is expected to be recognized over a weighted-average period of 2.01 years. The valuation model applied in this calculation utilizes subjective assumptions that could potentially change over time, including the expected forfeiture rate. Therefore, the amount of unrecognized compensation expense at June 30, 2007, noted above does not necessarily represent the expense that will ultimately be realized by the Company in the Statement of Operations.

Common Stock Granted to Employees

Common stock is granted to certain employees without monetary consideration under the Company s 2004 Long-Term Incentive Compensation Plan. At the date of grant, the recipient has all rights of a stockholder including the right to vote and receive dividends subject to restrictions on transfer and forfeiture provisions. The forfeiture and transfer restrictions on the shares lapse over a two to four year period beginning on the date of grant.

The Company recorded compensation expense relating to outstanding shares of common stock granted to employees of $242 and $197 for the three months ended June 30, 2007 and 2006, respectively, and $456 and $383 for the six months ended June 30, 2007 and 2006, respectively.

The fair value of common stock awards is determined based on the closing trading price of the Company s common stock on the grant date. A summary of the Company s employee share grant activity is as follows:

Restricted Stock Grants	Shares	Weighted-Average Grant-Date Fair Value
Unreleased at December 31, 2006	156,300	$ 15.94
Granted	90,529	19.25
Released	(27,500)	15.72
Cancelled	(600)	18.24
Unreleased at June 30, 2007	218,729	$ 17.35

17. SEGMENT INFORMATION

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

	June 30, 2007	December 31, 2006
Balance Sheet		
Investment in real estate ventures		
Rental operations	$ 91,303	$ 88,115
Total assets		
Property management, acquisition and development	$ 373,759	$ 223,402
Rental operations	1,610,180	1,446,423
	$ 1,983,939	$ 1,669,825

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Statement of Operations				
Total revenues				
Property management, acquisition and development	$ 8,158	$ 6,511	$ 15,703	$ 12,706
Rental operations	48,392	42,020	94,623	81,195
	$ 56,550	$ 48,531	$ 110,326	$ 93,901
Operating expenses, including depreciation and amortization				
Property management, acquisition and development	$ 10,684	$ 9,561	$ 21,409	$ 19,940
Rental operations	26,135	24,104	51,565	47,939
	$ 36,819	$ 33,665	$ 72,974	$ 67,879
Income (loss) before interest, minority interests and equity in earnings of real estate ventures				
Property management, acquisition and development	$ (2,526)	$ (3,050)	$ (5,706)	$ (7,234)
Rental operations	22,257	17,916	43,058	33,256
	$ 19,731	$ 14,866	$ 37,352	$ 26,022
Interest expense				
Property management, acquisition and development	$ (401)	$ (186)	$ (564)	$ (386)
Rental operations	(15,036)	(12,598)	(28,269)	(24,383)
	$ (15,437)	$ (12,784)	$ (28,833)	$ (24,769)
Interest income				
Property management, acquisition and development	$ 3,668	$ 148	$ 5,116	$ 630
Minority interests - Operating Partnership and other				
Property management, acquisition and development	$ (459)	$ (225)	$ (859)	$ (279)
Equity in earnings of real estate ventures				
Rental operations	$ 1,192	$ 1,087	$ 2,389	$ 2,226
Net income (loss)				
Property management, acquisition and development	$ 282	$ (3,313)	$ (2,013)	$ (7,269)
Rental operations	8,413	6,405	17,178	11,099
	$ 8,695	$ 3,092	$ 15,165	$ 3,830
Depreciation and amortization expense				
Property management, acquisition and development	$ 340	$ 201	$ 602	$ 384
Rental operations	8,783	8,856	17,317	17,949
	$ 9,123	$ 9,057	$ 17,919	$ 18,333
Statement of Cash Flows				
Acquisition of real estate assets				
Property management, acquisition and development			$ (98,148)	$ (87,964)
Development and construction of real estate assets				
Property management, acquisition and development			$ (19,381)	$ (15,118)

18. COMMITMENTS AND CONTINGENCIES

The Company has guaranteed two construction loans for unconsolidated partnerships that own development properties in Baltimore, Maryland and Chicago, Illinois. These properties are owned by joint ventures in which the Company has 10% equity interests. These guarantees were entered into in November 2004 and July 2005, respectively. At June 30, 2007, the total amount of guaranteed mortgage debt relating to these joint ventures was $13,095. These mortgage loans mature December 1, 2007 and July 28, 2008, respectively. If the joint ventures default on the

loans, the Company may be forced to repay the loans. Repossessing and/or selling the self-storage facilities and land that collateralize the loans could provide funds sufficient to reimburse the Company. The estimated fair market value of the encumbered assets at June 30, 2007, was $16,281. The Company has recorded no liability in relation to this guarantee as of June 30, 2007. The fair value of the guarantee is not material. To date, the joint ventures have not defaulted on their mortgage debt. The Company believes the risk of having to perform on the guarantee is remote.

The Company has been involved in routine litigation arising in the ordinary course of business. As of June 30, 2007, the Company was not involved in any material litigation nor, to its knowledge, was any material litigation threatened against it, or its properties.

19. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of FASB Statement No. 109 (SFAS 109) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, there were no material unrecognized tax benefits. At June 30, 2007, there were no material unrecognized tax benefits.

Interest and penalties related to uncertain tax positions will be recognized in income tax expense, when incurred. As of June 30, 2007, the Company had no interest and penalties related to uncertain tax positions.

The tax years 2003-2006 remain open to examination by the major taxing jurisdictions to which the Company is subject.

20. SUBSEQUENT EVENTS

On August 1, 2007, one property was contributed to the Operating Partnership in exchange for consideration totaling $14.6 million. Preferred OP Units of 80,905 with a value of $9.8 million were issued along with cash of approximately $4.8 million.

Extra Space Storage Inc.
Management s Discussion and Analysis
Amounts in thousands, except property and per share data

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

CAUTIONARY LANGUAGE

The following discussion and analysis should be read in conjunction with our *Unaudited Condensed Consolidated Financial Statements* and the *Notes to Unaudited Condensed Consolidated Financial Statements* contained in this report and the *Consolidated Financial Statements, Notes to Consolidated Financial Statements* and *Management s Discussion and Analysis of Financial Condition and Results of Operations* contained in our Form 10-K for the year ended December 31, 2006. The Company makes statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-Q entitled Statement on Forward-Looking Information. Amounts are in thousands (except per share data and unless otherwise stated).

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based on our unaudited Condensed Consolidated Financial Statements contained elsewhere in this report, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). Our notes to the unaudited Condensed Consolidated Financial Statements contained elsewhere in this report and the Audited Consolidated Financial Statements contained in our Form 10-K for the year ended December 31, 2006 describe the significant accounting policies essential to our unaudited Condensed Consolidated Financial Statements. Preparation of our financial statements requires estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions which we have used are appropriate and correct based on information available at the time that they were made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported revenue and expense during the period presented. If there are material differences between these estimates, judgments and assumptions and actual facts, our financial statements may be affected.

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

We have elected to early adopt Topic D-109 which specifically relates to the AAAAA Rent-A-Space acquisition that was completed during the quarter ended June 30, 2007.

OVERVIEW

We are a fully integrated, self-administered and self-managed real estate investment trust formed to continue the business commenced in 1977 by our predecessor company to own, operate, manage, acquire and develop self-storage properties. We derive a majority of our revenues from rents received from tenants under existing leases at each of our self-storage properties. Additional revenue is derived from management and franchise fees from our joint venture and managed properties. We operate in competitive markets where consumers have multiple self-storage properties from which to choose. Competition has and will continue to impact our results. We experience minor seasonal fluctuations in occupancy levels, with occupancy levels higher in the summer months due to increased rental activity.

Our operating results depend materially on our ability to lease available self-storage space and on the ability of our tenants to make required rental payments. We believe we are able to respond quickly and effectively to changes in local, regional and national economic conditions by centrally adjusting rental rates through the combination of our revenue management team and our industry-leading technology systems.

We continue to evaluate a range of growth initiatives and opportunities including the following:

- *Maximize the performance of properties through strategic, efficient and proactive management.* We plan to pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team will seek to maximize revenue by responding to changing market conditions through our technology system s ability to provide real-time, interactive rental rate and discount management. Our size and scale give us a greater ability than

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

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

- *Develop new self-storage properties*. We have several joint venture and wholly-owned development properties and will continue to develop new self-storage properties in our core markets. Our development pipeline for the remainder of 2007 through 2008 includes 16 projects. The majority of the projects will be developed on a wholly-owned basis by the Company. The construction of many of these properties has already begun.

- *Expand the Company s management business*. We see the management business as a future acquisition pipeline and expect to pursue strategic relationships with owners that should strengthen our acquisition pipeline through agreements which give us first right of refusal to purchase the managed property in the event of a potential sale. Twelve of the Company s 2006 and seven of the Company s 2007 acquisitions have come from this channel.

PROPERTIES

As of June 30, 2007, we owned or had ownership interests in 585 operating self-storage properties located in 33 states and Washington, D.C. Of these properties, 242 are wholly-owned and consolidated, one is held in joint venture and consolidated and 342 are held in joint ventures accounted for using the equity method. In addition, we managed 59 properties for franchisees or third parties bringing the total numbers of properties which we own and/or manage to 644. We receive a management fee equal to approximately 6% of gross revenues to manage the joint venture, third party and franchise sites. As of June 30, 2007, we owned or had ownership interests in approximately 42 million square feet of space and had greater than 300,000 customers.

Approximately 70% of our properties are clustered around the larger population centers, such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco. These markets contain above-average population and income demographics for new self-storage properties. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. The Storage USA acquisition has 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 or has been open for three years. Although leases are short-term in duration, the typical tenant tends to remain at our properties for an extended period of time. For properties that were stabilized as of June 30, 2007, the median length of stay was approximately eleven months.

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

The following table sets forth additional information regarding the occupancy of our stabilized properties on a state-by-state basis as of June 30, 2007 and 2006. The information as of June 30, 2006 is on a pro forma basis as though all the properties owned at June 30, 2007 were under the Company s control as of June 30, 2006.

Stabilized Property Data Based on Location

Location	Number of Properties	Company Number of Units as of June 30, 2007(1)	Pro forma Number of Units as of June 30, 2006	Company Net Rentable Square Feet as of June 30, 2007(2)	Pro forma Net Rentable Square Feet as of June 30, 2006	Company Square Foot Occupancy % June 30, 2007	Pro forma Square Foot Occupancy % June 30, 2006
Wholly-owned properties							
Arizona	4	2,260	2,254	280,180	276,640	93.9 %	97.8 %
California	40	31,758	31,744	3,014,121	3,011,778	84.4 %	85.7 %
Colorado	5	2,399	2,394	301,691	293,591	91.3 %	91.6 %
Connecticut	1	745	745	62,505	62,430	84.5 %	72.7 %
Florida	27	17,729	17,683	1,880,443	1,878,402	86.2 %	91.8 %
Georgia	12	6,448	6,553	835,528	828,648	88.0 %	87.2 %
Hawaii	2	2,890	2,860	153,351	154,234	81.2 %	83.6 %
Illinois	4	2,674	2,691	266,454	265,487	87.8 %	83.2 %
Kansas	1	505	503	49,940	49,955	90.4 %	93.4 %
Kentucky	3	1,586	1,579	194,351	194,290	91.5 %	88.6 %
Louisiana	2	1,407	1,410	147,490	147,490	93.2 %	95.5 %
Maryland	8	6,746	6,684	731,002	703,522	85.5 %	85.0 %
Massachusetts	24	13,519	13,440	1,432,541	1,433,441	86.0 %	84.0 %
Michigan	2	1,041	1,043	134,402	135,312	90.6 %	84.8 %
Missouri	3	1,349	1,349	168,907	169,187	87.1 %	85.2 %
Nevada	2	1,256	1,242	132,465	131,135	84.3 %	86.6 %
New Hampshire	2	1,006	1,006	125,609	125,309	81.9 %	82.5 %
New Jersey	21	17,103	17,127	1,670,303	1,672,472	86.7 %	86.6 %
New York	7	6,957	6,965	455,779	456,119	82.1 %	82.4 %
Ohio	4	2,040	2,048	275,401	276,355	87.8 %	86.2 %
Oregon	1	764	767	103,450	103,610	95.7 %	94.1 %
Pennsylvania	8	6,133	6,128	640,568	637,294	86.9 %	81.8 %
Rhode Island	1	731	730	75,241	75,816	85.7 %	84.0 %
South Carolina	4	2,067	2,068	245,734	245,684	92.1 %	94.7 %
Tennessee	6	3,535	3,533	477,547	469,922	87.3 %	91.4 %
Texas	19	11,881	11,956	1,335,850	1,323,521	91.1 %	88.2 %
Utah	3	1,535	1,524	210,490	209,965	96.6 %	92.8 %
Virginia	4	2,890	2,889	272,825	273,038	88.0 %	86.3 %
Washington	3	2,031	2,030	244,865	244,595	98.3 %	96.3 %
Total Wholly-Owned Stabilized	**223**	**152,985**	**152,945**	**15,919,033**	**15,849,242**	**87.2 %**	**87.3 %**

Location	Number of Properties	Company Number of Units as of June 30, 2007(1)	Pro forma Number of Units as of June 30, 2006	Company Net Rentable Square Feet as of June 30, 2007(2)	Pro forma Net Rentable Square Feet as of June 30, 2006	Company Square Foot Occupancy % June 30, 2007	Pro forma Square Foot Occupancy % June 30, 2006
Joint-venture properties							
Alabama	4	2,300	2,324	282,018	281,628	88.7 %	86.5 %
Arizona	11	6,901	6,888	751,141	752,076	92.0 %	94.2 %
California	72	51,822	51,931	5,315,289	5,316,072	90.2 %	89.5 %
Colorado	3	1,906	1,905	216,038	215,813	89.4 %	86.0 %
Connecticut	8	5,979	5,985	690,389	690,434	78.3 %	77.1 %
Delaware	1	589	589	71,655	71,655	94.3 %	85.5 %
Florida	24	20,344	20,355	2,080,172	2,079,353	85.7 %	88.7 %
Georgia	3	1,891	1,916	246,406	251,530	79.4 %	82.9 %
Illinois	6	4,033	4,031	433,562	436,977	82.8 %	77.3 %
Indiana	9	3,740	3,733	468,753	468,563	90.3 %	90.2 %
Kansas	3	1,217	1,210	164,225	163,950	87.9 %	85.4 %
Kentucky	4	2,282	2,270	268,509	268,289	88.9 %	84.6 %
Maryland	14	10,927	10,916	1,077,412	1,076,827	88.4 %	85.1 %
Massachusetts	16	8,500	8,556	972,499	975,597	83.9 %	81.2 %
Michigan	10	5,968	5,959	785,447	786,252	87.8 %	79.3 %
Missouri	5	2,771	2,774	324,665	325,615	85.9 %	87.6 %
Nevada	7	4,630	4,632	620,549	621,772	88.5 %	92.1 %
New Hampshire	3	1,326	1,330	138,554	138,964	87.3 %	85.5 %
New Jersey	20	15,148	15,134	1,595,238	1,588,181	81.6 %	87.7 %
New Mexico	9	4,709	4,727	526,194	528,864	86.0 %	87.1 %
New York	22	24,098	24,220	1,803,896	1,806,109	86.0 %	83.7 %
Ohio	11	5,027	5,041	751,107	753,177	87.4 %	81.5 %
Oregon	2	1,291	1,286	137,140	137,140	91.2 %	95.3 %
Pennsylvania	9	6,474	6,477	687,618	687,370	87.3 %	85.2 %
Rhode Island	1	611	611	73,905	74,005	75.8 %	68.3 %
Tennessee	22	11,828	11,851	1,547,503	1,550,417	88.8 %	87.8 %
Texas	18	11,837	11,862	1,519,316	1,525,237	81.4 %	80.7 %
Utah	1	519	524	59,500	59,700	97.2 %	93.5 %
Virginia	15	10,393	10,359	1,106,716	1,106,770	87.8 %	87.1 %
Washington	1	551	551	62,730	62,730	94.9 %	89.8 %
Washington, DC	1	1,536	1,536	102,003	101,990	94.9 %	86.2 %
Total Stabilized Joint-Ventures	**335**	**231,148**	**231,483**	**24,880,149**	**24,903,057**	**86.9 %**	**86.3 %**
Managed properties							
California	5	3,273	3,271	401,655	398,455	77.9 %	80.9 %
Colorado	1	513	516	56,240	56,240	91.3 %	90.2 %
Florida	1	570	572	56,485	57,125	90.5 %	96.4 %
Georgia	7	4,530	4,559	485,472	486,372	87.8 %	86.3 %
Maryland	3	3,124	3,093	256,511	255,698	82.9 %	80.0 %
Nevada	1	436	442	61,235	61,510	80.0 %	79.5 %
New Jersey	2	1,096	1,089	131,472	131,642	93.3 %	89.4 %
New Mexico	2	1,576	1,584	171,555	171,355	88.0 %	93.3 %
Pennsylvania	2	888	888	131,130	131,330	95.0 %	83.9 %
Tennessee	2	1,147	1,133	135,410	130,286	88.5 %	92.2 %
Texas	1	371	371	46,955	46,955	99.4 %	98.7 %
Utah	2	1,431	1,433	136,412	146,587	85.6 %	75.8 %
Washington, DC	2	1,255	1,256	111,759	111,809	82.5 %	82.8 %
Total Stabilized Managed Properties	**31**	**20,210**	**20,207**	**2,182,291**	**2,185,364**	**86.0 %**	**85.1 %**
Total Stabilized Properties	**589**	**404,343**	**404,635**	**42,981,473**	**42,937,663**	**87.0 %**	**86.6 %**

(1) Represents unit count as of June 30, 2007, which may differ from June 30, 2006 unit count due to unit conversions or expansions.

(2) Represents net rentable square feet as of June 30, 2007, which may differ from June 30, 2006 net rentable square feet due to unit conversions or expansions.

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The following table sets forth additional information regarding the occupancy of our lease-up properties on a state-by-state basis as of June 30, 2007 and 2006. The information as of June 30, 2006 is on a pro forma basis as though all the properties owned at June 30, 2007 were under our control as of June 30, 2006.

Lease-up Property Data Based on Location

Location	Number of Properties	Company Number of Units as of June 30, 2007(1)	Pro forma Number of Units as of June 30, 2006	Company Net Rentable Square Feet as of June 30, 2007(2)	Pro forma Net Rentable Square Feet as of June 30, 2006	Company Square Foot Occupancy % June 30, 2007	Pro forma Square Foot Occupancy % June 30, 2006
Wholly-owned properties							
Arizona	1	587	599	67,375	67,375	77.3 %	32.5 %
California	5	3,653	2,798	433,850	330,280	56.9 %	55.8 %
Colorado	1	359	368	58,928	60,441	76.6 %	80.6 %
Connecticut	1	612	614	60,760	60,760	75.6 %	65.7 %
Florida	2	1,257	973	157,005	133,880	71.8 %	75.7 %
Illinois	1	591	588	75,800	75,820	76.4 %	66.5 %
Massachusetts	4	2,896	1,927	285,927	195,608	63.8 %	68.0 %
New Jersey	2	1,744	1,678	163,185	149,070	79.1 %	80.2 %
Pennsylvania	1	424	425	47,060	47,410	79.6 %	59.6 %
Washington	1	501	529	61,250	61,250	98.9 %	80.2 %
Total Wholly-Owned Lease-up	**19**	**12,624**	**10,499**	**1,411,140**	**1,181,894**	**68.8 %**	**65.7 %**
Joint-venture properties							
California	1	703		79,233		31.4 %	0.0 %
Illinois	1	955	957	74,153	75,399	43.1 %	0.0 %
Maryland	1	948	957	73,666	73,649	51.1 %	12.3 %
New Jersey	2	1,195	560	119,735	62,400	54.6 %	74.2 %
New Mexico	1	491	530	77,674	58,992	85.1 %	91.3 %
Pennsylvania	1	754	774	76,496	76,773	96.5 %	80.0 %
Virginia	1	878	878	84,383	84,383	76.6 %	58.4 %
Total Lease-up Joint-Ventures	**8**	**5,924**	**4,656**	**585,340**	**431,596**	**62.2 %**	**50.9 %**
Managed properties							
California	8	5,433	4,792	552,315	461,095	72.9 %	58.7 %
Connecticut	1	683	687	54,840	54,380	94.9 %	70.1 %
Florida	3	2,226	1,297	224,832	112,286	46.3 %	60.9 %
Georgia	2	1,007	1,114	115,215	114,780	72.2 %	58.1 %
Illinois	2	1,561	1,573	190,329	192,949	67.6 %	51.9 %
Indiana	1	587	588	68,890	69,040	72.9 %	54.5 %
Maryland	1	727	728	67,810	67,560	79.2 %	73.4 %
Massachusetts	4	3,851	3,870	338,894	341,359	64.9 %	45.8 %
New Jersey	1	863		78,190		20.2 %	0.0 %
New York	1	1,578	1,579	116,235	116,530	78.9 %	65.3 %
Rhode Island	1	501	506	55,670	56,095	38.9 %	16.0 %
Texas	2	1,167	1,172	125,505	124,445	88.7 %	73.3 %
Virginia	1	687	676	74,840	74,900	87.1 %	78.2 %
Total Lease-up Managed	**28**	**20,871**	**18,582**	**2,063,565**	**1,785,419**	**67.8 %**	**57.3 %**
Total Lease-up Properties	**55**	**39,419**	**33,737**	**4,060,045**	**3,398,909**	**67.4 %**	**59.4 %**

(1) Represents unit count as of June 30, 2007, which may differ from June 30, 2006 unit count due to unit conversions or expansions.

(2) Represents net rentable square feet as of June 30, 2007, which may differ from June 30, 2006 net rentable square feet due to unit conversions or expansions.

RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 2007 and 2006

Overview

Results for the three and six months ended June 30, 2007 include the operations of 585 properties (243 of which were

consolidated and 342 of which were in joint ventures accounted for using the equity method) compared to the results for the three and six months ended June 30, 2006, which included the operations of 556 properties (208 of which were consolidated and 348 of which were in joint ventures accounted for using the equity method).

Revenues

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

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	$ Change	% Change	2007	2006	$ Change	% Change
Revenues:								
Property rental	$ 48,392	$ 42,020	$ 6,372	15.2 %	$ 94,623	$ 81,195	$ 13,428	16.5 %
Management and franchise fees	5,143	5,181	(38)	(0.7)%	10,351	10,340	11	0.1 %
Tenant insurance	2,688	971	1,717	176.8 %	4,831	1,892	2,939	155.3 %
Development fees	182	175	7	4.0 %	237	225	12	5.3 %
Other income	145	184	(39)	(21.2)%	284	249	35	14.1 %
Total revenues	$ 56,550	$ 48,531	$ 8,019	16.5 %	$ 110,326	$ 93,901	$ 16,425	17.5 %

Property Rental The increase in property rental revenue for the three and six months ended June 30, 2007 consists of $4,500 and $9,240, respectively, associated with acquisitions completed in 2007 and 2006, $1,454 and $3,394, respectively, from rate increases at stabilized properties, and $418 and $794, respectively, from increases in occupancy at lease-up properties.

Management and Franchise Fees Revenue from management and franchise fees have remained fairly stable. Increased revenues at our joint venture, franchise, and third-party managed sites related to rental rate and occupancy increases have been offset by lost management fees due to the termination of certain management agreements.

Tenant Insurance The increase in tenant insurance revenues is due to the introduction of our captive insurance program at all wholly-owned properties in October 2006. In addition, during the six months ended June 30, 2007, we promoted the tenant insurance program and successfully increased sales of insurance policies in excess of 25%. Formerly, insurance revenues included only fee income paid by a third party insurance company.

Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	$ Change	% Change	2007	2006	$ Change	% Change
Expenses:								
Property operations	$ 17,352	$ 15,248	$ 2,104	13.8 %	$ 34,248	$ 29,990	$ 4,258	14.2 %
Tenant insurance	1,217	589	628	106.6 %	2,190	1,222	968	79.2 %
Unrecovered development and acquisition costs	159	24	135	562.5 %	409	342	67	19.6 %
General and administrative	8,968	8,747	221	2.5 %	18,208	17,992	216	1.2 %
Depreciation and amortization	9,123	9,057	66	0.7 %	17,919	18,333	(414)	(2.3)%
Total expenses	$ 36,819	$ 33,665	$ 3,154	9.4 %	$ 72,974	$ 67,879	$ 5,095	7.5 %

Property Operations The increase in property operations expense for the three and six months ended June 30, 2007 consists of $1,344 and $3,057, respectively, associated with acquisitions completed in 2007 and 2006, $760 and $1,201, respectively, from increases in utilities and advertising expenses at existing properties.

Tenant Insurance The increase in tenant insurance expense is due to the introduction of our captive insurance program at all wholly-owned properties in October 2006.

Unrecovered Development/Acquisition Costs Unrecovered development and acquisition costs have increased when compared to the prior year due to increased acquisition volume and competition for raw land and operating properties.

General and Administrative General and administrative costs remained relatively constant due to the fact that the integration of the Storage USA properties was completed prior to the periods presented and as no similar large acquisitions have occurred.

Depreciation and Amortization The decrease in depreciation and amortization expense for the six months ended June 30, 2007 is due primarily to the fact that the customer relationship intangibles related to the properties acquired in the Storage USA acquisition in July 2005 were fully amortized as of January 2007. This decrease is offset by additional depreciation and amortization expense from other acquisitions made in 2007 and 2006, causing the increase in depreciation and amortization expense for the three months ended June 30, 2007.

Other Revenues and Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	$ Change	% Change	2007	2006	$ Change	% Change
Other revenue and expenses:								
Interest expense	$ (15,437)	$ (12,784)	$ (2,653)	20.8%	$ (28,833)	$ (24,769)	$ (4,064)	16.4%
Interest income	3,668	148	3,520	2,378.4%	5,116	630	4,486	712.1%
Minority interest - Operating Partnership	(515)	(225)	(290)	128.9%	(899)	(279)	(620)	222.2%
Minority interest - other	56		56	(100.0)%	40		40	(100.0)%
Equity in earnings of real estate ventures	1,192	1,087	105	9.7%	2,389	2,226	163	7.3%
Total other expense	$ (11,036)	$ (11,774)	$ 738	(6.3)%	$ (22,187)	$ (22,192)	$ 5	0.0%

Interest Expense The increase in interest expense for the three and six months ended June 30, 2007 when compared to June 30, 2006 consists primarily of $1,181 and $2,475, respectively, related to new loans on properties acquired in 2007 and 2006, and $1,596 and $1,221, respectively, related to increased corporate interest related primarily to the exchangeable senior notes offering in March 2007.

Interest Income The increase in interest income was due to the larger amount of cash and short-term investments held during the three and six months ended June 30, 2007 compared to the prior year. The excess cash was generated primarily by the exchangeable senior notes offering in March 2007.

Minority Interest Operating Partnership Income allocated to the Operating Partnership represents 5.59% and 6.88% of the net income before minority interest for the six months ended June 30, 2007 and 2006, respectively. The increase in the amount allocated to the minority interest in 2007 is due to the increase in net income.

Equity in Earnings of Real Estate Ventures The change in equity in earnings of real estate ventures for the three and six months ended June 30, 2007 relates primarily to increases in income at the properties owned by the real estate ventures.

FUNDS FROM OPERATIONS

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

The computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO does not represent cash

generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to net income as an indication of our performance, as an alternative to net cash flow from operating activities as a measure of our liquidity, or as an indicator of our ability to make cash distributions. The following table sets forth the calculation of FFO (dollars are in thousands, except for share data):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net income	$ 8,695	$ 3,092	$ 15,165	$ 3,830
Plus:				
Real estate depreciation	7,830	6,648	15,416	13,121
Amortization of intangibles	807	1,951	1 ,614	4,504
Joint venture real estate depreciation and amortization	1,026	1,247	2,087	2,447
Joint venture loss on sale of properties	5		5	
Income allocated to Operating Partnership minority interest	515	225	899	279
Funds from operations	$ 18,878	$ 13,163	$ 35,186	$ 24,181
Weighted average number of shares - basic				
Common stock (excluding restricted shares)	64,439,138	51,625,135	64,356,827	51,606,618
OP units	4,012,379	3,825,787	4,012,379	3,825,787
Total	68,451,517	55,450,922	68,369,206	55,432,405
Weighted average number of shares - diluted				
Common stock	65,236,466	52,165,301	65,201,934	52,157,299
OP units	4,012,379	3,825,787	4,012,379	3,825,787
Total	69,249,845	55,991,088	69,214,313	55,983,086

SAME-STORE STABILIZED PROPERTY RESULTS

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	2006	Percent Change	2007	2006	Percent Change
Same-store rental revenues	$ 39,624	$ 37,980	4.3 %	$ 78,534	$ 74,748	5.1 %
Same-store operating expenses	13,815	13,308	3.8 %	27,519	26,830	2.6 %
Same-store net operating income	25,809	24,672	4.6 %	51,015	47,918	6.5 %
Non same-store rental revenues	8,768	4,040	117.0 %	16,089	6,447	149.6 %
Non same-store operating expenses	3,537	1,940	82.3 %	6,729	3,160	112.9 %
Total rental revenues	48,392	42,020	15.2 %	94,623	81,195	16.5 %
Total operating expenses	17,352	15,248	13.8 %	34,248	29,990	14.2 %
Same-store square foot occupancy as of quarter end	87.5 %	88.1 %		87.5 %	88.1 %	
Properties included in same-store	181	181		181	181	

The increase in same-store rental revenues for the three and six months ended June 30, 2007 was due to our ability to maintain occupancy and increase rental rates to existing customers. The increase in same-store operating expenses was primarily due to increases in property taxes and advertising.

COMMON CONTINGENT SHARES AND COMMON CONTINGENT UNIT PROPERTY PERFORMANCE

As described in the notes to our unaudited Condensed Consolidated Financial Statements, upon the achievement of certain levels of net operating income with respect to 14 of our pre-stabilized properties, our contingent conversion shares (CCS) and our Operating Partnership s contingent conversion units (CCU) will convert into additional shares of common stock and Operating Partnership units, respectively.

As of June 30, 2007, there were 500,350 CCSs and 25,739 CCUs converted to common shares and common Operating

Partnership units, respectively. Based on the performance of the properties as of June 30, 2007, an additional 392,648 CCSs and 20,198 CCUs became eligible for conversion. The board of directors approved the conversion of these CCSs and CCUs on August 1, 2007 as per the Company s charter, and the shares and units were issued on August 3, 2007.

The table below outlines the performance of the properties for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	2006	Percent Change	2007	2006	Percent Change
CCS/CCU rental revenues	$ 2,967	$ 2,508	18.3 %	$ 5,853	$ 4,890	19.7 %
CCS/CCU operating expenses	1,333	1,330	0.2 %	2,631	2,655	(0.9)%
CCS/CCU net operating income	1,634	1,178	38.7 %	3,222	2,235	44.2 %
Non CCS/CCU rental revenues	45,425	39,512	15.0 %	88,770	76,305	16.3 %
Non CCS/CCU operating expenses	16,019	13,918	15.1 %	31,617	27,335	15.7 %
Total rental revenues	48,392	42,020	15.2 %	94,623	81,195	16.5 %
Total operating expenses	17,352	15,248	13.8 %	34,248	29,990	14.2 %
CCS/CCU square foot occupancy as of quarter end	77.1 %	74.7 %		77.1 %	74.7 %	
Properties included in CCS/CCU	14	14		14	14	

The increase in CCS/CCU rental revenues was due to increased rental rates and occupancy.

CASH FLOWS

Cash flows provided by operating activities were $51,905 and $36,264, respectively, for the six months ended June 30, 2007 and 2006. The increase in cash provided by operating activities was due primarily to an increase in net income related to the addition of new properties through acquisitions and interest income from short-term investments. Additionally, there have also been lower cash funding requirements relating to our lease-up properties as occupancy has increased.

Cash used in investing activities was $205,629 and $107,850, respectively, for the six months ended June 30, 2007 and 2006. The increase is due primarily to the purchase of short-term investments during the six months ended June 30, 2007.

Cash provided by financing activities was $128,713 and $47,183 for the six months ended June 30, 2007 and 2006, respectively. The financing activities during the six months ended June 30, 2007 consisted primarily of the issuance of exchangeable senior notes for $250,000, additional net borrowings of $16,010, offset by $29,368 paid in dividends.

OPERATIONAL SUMMARY

For the three and six months ended June 30, 2007, we continued our same-store property revenue growth with a revenue increase of 4.3% and 5.1%, respectively, compared to the same periods in 2006. Occupancy at our stabilized properties was fairly consistent on a year-to-year basis, reaching 87.5% as of June 30, 2007 compared to 88.1% as of June 30, 2006.

Property revenue growth was evident in the majority of markets in which we operate. The growth in property revenue is the result of increases in occupancy and rental rates to both new and existing customers. Property expenses increased primarily as a result of increases in property taxes due to re-assessments on properties that we have acquired and other annual tax re-assessments.

OUTLOOK

In the second quarter, we continued to see a generally positive climate for self-storage in the United States. Rental activity was flat overall when compared with the second quarter of 2006. Despite the lack of increased demand, we were able to raise same-store and overall portfolio revenue through increased rental rates to existing customers. The key economic indicators that affect self-storage demand are mixed, and we are looking to rental activity in the second quarter of 2007 as an indicator

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of our results for the remainder of the year.

We seek to drive rental activity and revenue growth by actively managing both pricing and promotional strategies through our revenue management team and utilizing the yield management features of our technology system. In-house training, operational initiatives and marketing promotions, including national cable television advertising, continue to be implemented. These activities also provide support for increased rentals at the store level.

Our discounting strategies continue to evolve. Higher levels of discounting were utilized in the first six months of 2007 compared to 2006 due to special promotions associated with the 30th anniversary of the Company. We will selectively discount certain sites and units based on occupancy, availability, and competitive parameters that are controlled through our centralized, real-time technology systems and revenue management team.

Property taxes are seen as a primary driver of expenses in the coming year. As we acquire existing self-storage facilities, tax reassessments will continue to occur. Snow removal expenses, usually a major contributor to expense increases, were lower in the first six months of 2007 due to lower snowfall amounts than anticipated in the northeast and mid-Atlantic regions.

We anticipate continued competition from all operators, both public and private, in all of the markets in which we operate. However, we believe that the quality and location of our property portfolio, our revenue management systems, and the strength of our self-storage fundamentals will provide opportunities to grow revenues in the remainder of 2007.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2007, we had $45,790 available in cash and cash equivalents, and $90,331 in short-term investments. We intend to use this cash to purchase additional self-storage properties and fund other working capital needs during the remainder of 2007. Additionally, we are required to distribute at least 90% of our net taxable income, excluding net capital gains, to our stockholders on an annual basis to maintain our qualification as a REIT. Therefore, it is unlikely that we will have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

During September 2004, we, as guarantor, and our Operating Partnership entered into a $100 million revolving line of credit (Credit Facility), which includes a $10 million swingline sub facility. The Credit Facility is collateralized by self-storage properties. The Operating Partnership intends to use the proceeds of the Credit Facility for general corporate purposes and acquisitions. As of June 30, 2007, the Credit Facility had approximately $81 million of available borrowings based on the assets collateralizing the Credit Facility. As of June 30, 2007, we had no amount outstanding under the Credit Facility.

As of June 30, 2007, we had approximately $1,245.3 million of debt, resulting in a debt to total capitalization ratio of 52.3%. As of June 30, 2007, the ratio of total fixed rate debt and other instruments to total debt was 94.8%. The weighted average interest rate of the total of fixed and variable rate debt at June 30, 2007 was 5.1%.

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 covenants at June 30, 2007.

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

Long-Term Liquidity Needs

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

deferral in their exiting transactions.

On October 13, 2005, we filed a universal shelf registration statement with the Securities and Exchange Commission, which permits us to sell, from time to time, up to $800 million of our common stock, preferred stock, depositary shares, warrants and rights to the extent necessary or advisable to meet our liquidity needs. We have issued approximately $406 million of securities under this shelf registration statement to date, leaving us with availability of approximately $394 million.

FINANCING STRATEGY

We will continue to employ leverage in our capital structure in amounts determined 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, our board of directors 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 the Company as a whole, to generate cash flow sufficient to cover expected debt service payments;
- overall level of consolidated indebtedness;
- timing of debt and lease maturities;
- provisions that require recourse and cross-collateralization;
- corporate credit ratios including debt service coverage, debt to total capitalization and debt to undepreciated assets; and
- the overall ratio of fixed- and variable-rate debt.

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

OFF-BALANCE SHEET ARRANGEMENTS

Except as disclosed in the notes to our unaudited Condensed Consolidated Financial Statements, we do not currently have any relationships with unconsolidated entities or financial partnerships, such 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 unaudited Condensed Consolidated Financial Statements, we have not guaranteed any obligations of unconsolidated entities nor do we have any

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commitments or intent to provide funding to any such entities. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

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

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of June 30, 2007:

	Payments due by Period:				
	Total	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Operating leases	$ 63,722	$ 5,365	$ 10,197	$ 8,678	$ 39,482
Notes payable, exchangeable senior notes and notes payable to trusts					
Interest	454,474	63,396	111,409	68,531	211,138
Principal	1,245,320	4,513	298,990	179,680	762,137
Total contractual obligations	$ 1,763,516	$ 73,274	$ 420,596	$ 256,889	$ 1,012,757

SEASONALITY

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

Interest Rate Risk

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

As of June 30, 2007, we had $1.2 billion in total debt of which $64.7 million was subject to variable interest rates (including the $61.8 million on which we have a reverse interest rate swap). If LIBOR were to increase or decrease by 100 basis points, the increase or decrease in interest expense on the variable rate debt would increase or decrease future earnings and cash flows by approximately $0.7 million annually.

Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

The fair value of fixed rate notes payable and notes payable to trusts at June 30, 2007 was $1.1 billion. The carrying value of these fixed rate notes payable at June 30, 2007 was $1.2 billion.

ITEM 4. CONTROLS AND PROCEDURES

(i) Disclosure Controls and Procedures

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

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

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

(ii) Changes in internal control over financial reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various litigation and proceedings in the ordinary course of business. We are not a party to any material litigation or legal proceedings, or to the best of our knowledge, any threatened litigation or legal proceedings, which, in the opinion of management, will have a material adverse effect on our financial condition or results of operations either individually or in the aggregate.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I. Item 1A. Risk Factors in our 2006 Annual Report on Form 10-K. Please refer to that section for disclosures regarding the risks and uncertainties related to our business.

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

As described in the notes to our unaudited Condensed Consolidated Financial Statements, upon the achievement of certain levels of net operating income with respect to 14 of our pre-stabilized properties, our CCSs and our Operating Partnership s CCUs will convert into additional shares of common stock and Operating Partnership units, respectively. Subject to certain lock-up periods and adjustments, the units are generally exchangeable for shares of common stock on a one-for-one basis or an equivalent amount of cash, at the option of the Company.

As of June 30, 2007, there were 500,350 CCSs and 25,739 CCUs converted to common shares and common Operating Partnership units, respectively. Based on the performance of the properties as of June 30, 2007, an additional 392,648 CCSs

and 20,198 CCUs became eligible for conversion. The board of directors approved the conversion of these CCS and CCUs on August 1, 2007 as per the Company s charter, and the shares and units were issued on August 3, 2007. The shares and units were issued in private placements in reliance on Section 3(a)(9) and Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. We received no additional consideration for the conversions.

On June 14, 2007, the Company acquired one self-storage facility located in San Francisco, California from an unrelated third party for cash of $867, a loan assumption of $14.1 million, assumed net liabilities of $60 and 218,693 Operating Partnership units valued at $3,834. The units were issued in a private placement in reliance on Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. Subject to certain lock-up periods and adjustments, the units are generally exchangeable into common stock of the Company on a one-for-one basis or an equivalent amount of cash, at the option of the Company.

On August 1, 2007, one property was contributed to the Operating Partnership in exchange for consideration totaling $14.6 million. Preferred OP Units of 80,905 with a value of $9.8 million were issued along with cash of approximately $4.8 million. The units were issued in a private placement in reliance on Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. Subject to certain lock-up periods and adjustments, the Preferred OP Units will be redeemable at the option of the holder on or after September 1, 2008, which redemption obligation may be satisfied, at the Company s option, in cash or shares of its common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our annual meeting of stockholders on May 23, 2007. The first item of business was the election of seven members of the board of directors. The votes were tabulated as follows: 50,964,913 votes were cast for Kenneth M. Woolley and 700,456 votes were withheld; 51,058,067 votes were cast for Anthony Fanticola and 607,302 votes were withheld; 51,039,772 votes were cast for Hugh W. Horne and 625,597 votes were withheld; 47,530,424 votes were cast for Spencer F. Kirk and 4,134,945 votes were withheld; 51,193,682 votes were cast for Joseph D. Margolis and 471,687 votes were withheld; 51,063,979 votes were cast for Roger B. Porter and 601,390 votes were withheld; and 51,119,011 votes were cast for K. Fred Skousen and 546,358 votes were withheld. The second item of business was a proposal to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2007. The votes were tabulated as follows: 51,598,167 were cast for, 47,285 were cast against, and 19,914 abstained.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

10.1	Contribution Agreement, dated June 15, 2007, among Extra Space Storage LP and various limited partnerships affiliated with AAAAA Rent-A-Space (incorporated by reference to Exhibit 10.1 of Form 8-K filed on June 18, 2007).
10.2	Second Amended and Restated Agreement of Limited Partnership of Extra Space Storage LP, dated June 25, 2007 (incorporated by reference to Exhibit 10.1 of Form 8-K filed on June 26, 2007).
10.3	Promissory Note, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.2 of Form 8-K filed on June 26, 2007).
10.4	Pledge Agreement, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.3 of Form 8-K filed on June 26, 2007).
10.5	Form of Registration Rights Agreement among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.4 of Form 8-K filed on June 26, 2007).

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

EXTRA SPACE STORAGE INC.
Registrant

Date: August 8, 2007

/s/ Kenneth M. Woolley
Kenneth M. Woolley
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2007

/s/ Kent W. Christensen
Kent W. Christensen
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)