

Extra Space Storage Inc.
Form 8-K
January 17, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

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

January 17, 2007

(Date of Report (Date of Earliest Event Reported))

EXTRA SPACE STORAGE INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction
of Incorporation)

001-32269
(Commission File Number)

20-1076777
(IRS Employer
Identification Number)

2795 East Cottonwood Parkway, Suite 400

Salt Lake City, Utah 84121

(Address of Principal Executive Offices)

(801) 562-5556

(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.01 Completion of Acquisition or Disposition of Assets.

Extra Space Storage Inc. (the Company or EXR) purchased 25 properties during 2006. Twenty properties were acquired during the first nine months of 2006 and the remaining five properties thereafter. No single property (or portfolio of properties) was an individually significant acquisition as defined under Regulation S-X Rule 3-14. Audits of nine properties were performed and represent the mathematical majority of the cost of the Company s individually insignificant pool of acquisition properties.

ITEM 9.01 Financial Statements and Exhibits.

Pro Forma Financial Information:

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2006

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Nine Months Ended September 30, 2006

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2005

Audited Historical Financial Statements with Unaudited Interim Periods:

Deland Vest, L.L.C.

Report of Independent Registered Public Accounting Firm

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

CFG Properties

Report of Independent Registered Public Accounting Firm

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

Little River Vest, L.L.C.

Report of Independent Registered Public Accounting Firm

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

Extra Space Development, LLC

Report of Independent Registered Public Accounting Firm

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

Inwood Limited Partnership

Report of Independent Registered Public Accounting Firm

Edgar Filing: Extra Space Storage Inc. - Form 8-K

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

Winward Self Storage, LLC

Report of Independent Registered Public Accounting Firm

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

Parklawn Storage Partners, L.P.

Report of Independent Registered Public Accounting Firm

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

Advantage Self Storage

Report of Independent Registered Public Accounting Firm

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

Jason's Self Storage of Neptune, New Jersey

Report of Independent Registered Public Accounting Firm

Statements of Revenues and Certain Expenses

Notes to Statements of Revenues and Certain Expenses

2

SIGNATURES

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

EXTRA SPACE STORAGE INC.

Date: January 17, 2007

| | | |
|----|-------------------------|---|
| By | /s/ Kent W. Christensen | |
| | Name: | Kent W. Christensen |
| | Title: | Executive Vice President and Chief Financial Officer |

3

Index to the Financial Statements

Pro Forma Financial Information:

| | |
|--|----|
| Unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2006 | 6 |
| Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Nine Months Ended September 30, 2006 | 8 |
| Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2005 | 12 |

Audited Historical Financial Statements with Unaudited Interim Periods:

Deland Vest, L.L.C.

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 16 |
| Statements of Revenues and Certain Expenses | 17 |
| Notes to Statements of Revenues and Certain Expenses | 18 |

CFG Properties

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 19 |
| Statements of Revenues and Certain Expenses | 20 |
| Notes to Statements of Revenues and Certain Expenses | 21 |

Little River Vest, L.L.C.

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 22 |
| Statements of Revenues and Certain Expenses | 23 |
| Notes to Statements of Revenues and Certain Expenses | 24 |

Extra Space Development, LLC

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 25 |
| Statements of Revenues and Certain Expenses | 26 |
| Notes to Statements of Revenues and Certain Expenses | 27 |

Inwood Limited Partnership

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 28 |
| Statements of Revenues and Certain Expenses | 29 |
| Notes to Statements of Revenues and Certain Expenses | 30 |

Winward Self Storage, LLC

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 31 |
| Statements of Revenues and Certain Expenses | 32 |
| Notes to Statements of Revenues and Certain Expenses | 33 |

Parklawn Storage Partners, L.P.

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 34 |
| Statements of Revenues and Certain Expenses | 35 |
| Notes to Statements of Revenues and Certain Expenses | 36 |

Advantage Self Storage

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 37 |
| Statements of Revenues and Certain Expenses | 38 |
| Notes to Statements of Revenues and Certain Expenses | 39 |

Jason s Self Storage of Neptune, New Jersey

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm | 40 |
| Statements of Revenues and Certain Expenses | 41 |
| Notes to Statements of Revenues and Certain Expenses | 42 |

4

EXTRA SPACE STORAGE INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Extra Space Storage Inc. (the Company or EXR) purchased 25 properties during 2006. Twenty properties were acquired during the first nine months of 2006 and the remaining five properties thereafter. No single property (or portfolio of properties) was an individually significant acquisition as defined under Regulation S-X Rule 3-14. Audits of nine properties were performed and represent the mathematical majority of the cost of the Company s individually insignificant pool of acquisition properties.

The following unaudited pro forma condensed consolidated financial information of Extra Space Storage Inc. as of and for the nine months ended September 30, 2006 and for the year ended December 31, 2005 has been derived from (1) the historical audited financial statements of Extra Space Storage Inc. as filed in the Company s 2005 Form 10-K, (2) the historical unaudited financial statements of Extra Space Storage Inc. as filed in the Company s third quarter 2006 Form 10-Q, (3) the historical statements of revenues and certain expenses of the nine audited properties acquired during 2006, and (4) the historical unaudited statements of revenues and certain expenses of the remaining 16 self-storage properties acquired during 2006.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2006 reflects adjustments to the Company s unaudited historical financial data to give effect to the five properties acquired subsequent to September 30, 2006 as if each had occurred on September 30, 2006.

The pro forma condensed consolidated statements of operations for the nine months ended September 30, 2006 and for the year ended December 31, 2005 reflect adjustments to the Company s historical financial data to give effect to the acquisition of all 25 self-storage properties as if each had occurred on January 1, 2005 (the pro forma amounts have been adjusted to exclude any operations from the date of acquisition to September 30, 2006 if such acquisition occurred before September 30, 2006).

On April 13, 2006, the Company purchased a group of five properties from a joint venture in which it was a partner. This joint venture interest was originally acquired by the Company as part of the Storage USA acquisition that was completed on July 14, 2005. The Company has included these five properties in its pool of unaudited individually insignificant acquisitions. These properties were not audited for the following reasons: (i) the amount of the acquisition was not considered by management to be material individually or in aggregate to the Company s financial statements; (ii) the acquisition was not a typical related party transaction (i.e. where the counter party is a significant shareholder, officer or director, etc.); and (iii) completing the audits would have been burdensome to the Company due to the incomplete nature of the related records. Management believes that the absence of audits of these financial statements is not material to a reader s understanding of the Company s financial results, financial condition and related trends.

The unaudited pro forma adjustments are based on available information and assumptions that the Company considers reasonable. The unaudited pro forma condensed consolidated financial information is not necessarily indicative of what the Company s actual financial position or results of operations for the period would have been as of the date and for the periods indicated, nor does it purport to represent the Company s future financial position or results of operations.

The unaudited pro forma condensed consolidated financial information should be read together with the notes thereto in conjunction with the more detailed information contained in the historical financial statements referenced in this filing.

EXTRA SPACE STORAGE INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30, 2006

(in thousands, except per share data)

| | Historical EXR (1) | Five Acquisitions Subsequent to 9/30/06 (2) | Pro Forma EXR |
|---|-----------------------|---|------------------|
| Assets: | | | |
| Real estate assets: | | | |
| Net operating real estate assets | \$ 1,333,901 | \$ 35,956 | \$ 1,369,857 |
| Real estate under development | 36,343 | | 36,343 |
| Net real estate assets | 1,370,244 | 35,956 | 1,406,200 |
| Investments in real estate ventures | 89,695 | | 89,695 |
| Cash and cash equivalents | 151,686 | (35,636) | 116,050 |
| Restricted cash | 16,955 | | 16,955 |
| Receivables from related parties and affiliated real estate joint ventures | 7,064 | | 7,064 |
| Notes receivable | 1,688 | | 1,688 |
| Other assets, net | 31,204 | 309 | 31,513 |
| Total assets | \$ 1,668,536 | \$ 629 | \$ 1,669,165 |
| Liabilities, Minority Interests, and Stockholders' Equity: | | | |
| Notes payable | \$ 825,604 | \$ | \$ 825,604 |
| Notes payable to trusts | 119,590 | | 119,590 |
| Accounts payable and accrued expenses | 6,776 | 526 | 7,302 |
| Other liabilities | 29,952 | 103 | 30,055 |
| Total liabilities | 981,922 | 629 | (3) 982,551 |
| Minority interest in Operating Partnership | 35,304 | | 35,304 |
| Other minority interests | 225 | | 225 |
| Stockholders' equity: | | | |
| Common stock, \$0.01 par value, 200,000,000 shares authorized, 64,151,274 shares issued and outstanding at September 30, 2006 | 642 | | 642 |
| Additional paid-in capital | 821,852 | | 821,852 |
| Accumulated deficit | (171,409) |) | (171,409) |
| Total stockholders' equity | 651,085 | | 651,085 |
| Total liabilities, minority interests, and stockholders' equity | \$ 1,668,536 | \$ 629 | \$ 1,669,165 |

EXTRA SPACE STORAGE INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

BALANCE SHEET

(in thousands)

(1) Reflects the assets, liabilities and stockholders' equity of EXR as filed in Form 10-Q as of September 30, 2006.

(2) Represents the five properties purchased after September 30, 2006 which include:

- The purchase of a property located in Neptune, New Jersey on November 2, 2006 for cash of \$13,129.
- The purchase of a four property portfolio on November 21, 2006 for cash of \$22,507. Three properties are located in Texas and one is located in Florida.

(3) Security deposits and prepaid rent from customers and accrued property taxes represent the total liabilities of \$629 for the five properties purchased after September 30, 2006.

7

EXTRA SPACE STORAGE INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

(in thousands, except per share data)

| | Historical EXR (1) | Nine Audited Acquisitions (2) | Sixteen Un- Audited Acquisitions (3) | Pro Forma Adjustments | Pro Forma EXR |
|--|--------------------------|-------------------------------------|---|--------------------------|------------------|
| Revenues: | | | | | |
| Property rental | \$ 125,877 | \$ 3,662 | \$ 3,903 | \$ | \$ 133,442 |
| Management and franchise fees | 15,697 | | | | 15,697 |
| Tenant insurance | 2,608 | | | | 2,608 |
| Acquisition and development fees | 272 | | | | 272 |
| Other income | 635 | | | | 635 |
| Total revenues | 145,089 | 3,662 | 3,903 | | 152,654 |
| Expenses: | | | | | |
| Property operations | 46,603 | 1,652 | 1,360 | (377) | (4) 49,238 |
| Tenant insurance | 1,506 | | | | 1,506 |
| Unrecovered development/acquisition costs and support payments | 255 | | | | 255 |
| General and administrative | 26,590 | | | | 26,590 |
| Depreciation and amortization | 27,586 | | | 2,324 | (5) 29,910 |
| Total expenses | 102,540 | 1,652 | 1,360 | 1,947 | 107,499 |
| Income before interest, minority interests, equity in earnings of real estate ventures | 42,549 | 2,010 | 2,543 | (1,947) |) 45,155 |
| Interest expense | (38,198) |) | | (855) | (6) (39,053) |
| Interest income | 805 | | | (805) | (7) |
| Minority interest - Operating Partnership | (585) |) | | | (585) |
| Equity in earnings of real estate ventures | 3,566 | | | | 3,566 |
| Net income | \$ 8,137 | \$ 2,010 | \$ 2,543 | \$ (3,607) |) \$ 9,083 |
| Basic earnings per common share | \$ 0.16 | | | | \$ 0.17 |
| Diluted earnings per common share | \$ 0.13 | | | | \$ 0.15 |
| Weighted average number of common shares-Basic | 51,929,336 | | | | 51,929,336 |
| Weighted average number of common shares-Diluted | 56,250,164 | | | | 56,250,164 |

EXTRA SPACE STORAGE INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

(in thousands, except per share data)

(1) Reflects the results of operations of EXR as filed in Form 10-Q for the nine months ended September 30, 2006.

(2) Represents the pro forma revenues and operating expenses for the nine months ended September 30, 2006 of the nine audited properties acquired in 2006, for the period prior to acquisition by the Company.

| Property | Nine Audited Properties Financial Statements | | | Less Activity for Period Subsequent to Acquisition | | Net Activity for Periods Prior to Acquisition Included in Pro Forma | |
|--|--|-----------------|---------------|--|---------------|---|-----------------|
| | Revenues | Expenses | Mgmt.Fee | Revenues | Expenses | Revenues | Expenses |
| Deland, FL (Deland Vest, L.L.C.) | \$ 431 | \$ 250 | \$ 30 | \$ 419 | \$ 206 | \$ 12 | \$ 44 |
| Venice, FL (CFG Properties) | 701 | 317 | 49 | 670 | 258 | 31 | 59 |
| Dacula, FL (Little River Vest, L.L.C.) | 470 | 224 | 33 | 429 | 165 | 41 | 59 |
| N. Hollywood, CA (Extra Space Development, L.L.C.) | 620 | 301 | 37 | 363 | 152 | 257 | 149 |
| Dallas, TX (Inwood Limited Partnership) | 1,087 | 338 | 54 | 606 | 159 | 481 | 179 |
| Alpharetta, GA (Winward Self Storage, LLC) | 454 | 184 | 32 | 87 | 27 | 367 | 157 |
| Rockville, MD (Parklawn Storage Partners, L.P.) | 1,131 | 336 | 56 | 125 | 28 | 1,006 | 308 |
| Neptune, NJ (Jason's Self Storage of Neptune, NJ) | 895 | 437 | 52 | | | 895 | 437 |
| Allen, TX (Advantage Self Storage) | 572 | 260 | 34 | | | 572 | 260 |
| TOTALS | \$ 6,361 | \$ 2,647 | \$ 377 | \$ 2,699 | \$ 995 | \$ 3,662 | \$ 1,652 |

(3) Represents the unaudited pro forma revenues and operating expenses (excluding management fees) for the nine months ended September 30, 2006 of the 16 additional properties that were acquired in 2006 for the period prior to acquisition:

| 16 Un-Audited Properties | Revenues | Expenses |
|--------------------------|----------|----------|
| Tacoma (Pacific Hwy), WA | \$ 83 | \$ 35 |
| Tacoma (80th Street), WA | 84 | 33 |
| Tacoma (Tacoma Way), WA | 25 | 23 |
| Bensalem, PA | 80 | 49 |
| Houston (Pasadena), TX | 183 | 77 |
| Garland, TX | 159 | 75 |
| Nashville, TN | 145 | 94 |
| Houston (SW Fwy), TX | 407 | 136 |
| Wichita, KS | 128 | 82 |
| Phoenix, AZ | 222 | 85 |
| Lancaster, CA | 435 | 110 |
| Rowlett, TX | 223 | 129 |
| Parker, CO | 273 | 132 |
| Plano (Plano Pkwy), TX | 606 | 110 |

Edgar Filing: Extra Space Storage Inc. - Form 8-K

| | | |
|---------------------------|----------|----------|
| Plano (Spring Creek) , TX | 403 | 100 |
| Tampa, FL | 447 | 90 |
| TOTALS | \$ 3,903 | \$ 1,360 |

(4) Adjustment to eliminate the management fee paid to a third party for management of the properties as subsequent to acquisition by the Company, all properties are self-managed.

9

Edgar Filing: Extra Space Storage Inc. - Form 8-K

(5) Depreciation and amortization expense adjustments of \$1,136 on audited transactions includes real estate depreciation of \$709 computed on a straight-line basis over the estimated useful life (39 years) on depreciable assets acquired of \$63,222 and amortization of \$427 computed on a straight-line basis over 18 months on \$1,461 of intangible assets relating to tenant relationships. Depreciation and amortization expense adjustments of \$1,188 on non-audited transactions includes real estate depreciation of \$715 computed on a straight-line basis over the estimated useful life (39 years) on depreciable assets acquired of \$65,449 and amortization of \$473 computed on a straight-line basis over 18 months on \$1,806 of intangible assets relating to tenant relationships.

| | Depreciable Assets | Depreciation for Period Prior to Acquisition | Intangibles | Amortization for Period Prior to Acquisition | Total Depreciation / Amortization for Period Prior to Acquisition |
|--|-----------------------|---|-------------|---|--|
| Nine Audited Properties | | | | | |
| Deland, FL (Deland Vest, L.L.C.) | \$ 3,953 | \$ | \$ 96 | \$ | \$ |
| Venice, FL (CFG Properties) | 5,907 | 6 | 170 | 5 | 11 |
| Dacula, FL (Little River Vest, L.L.C.) | 2,990 | 3 | 100 | 3 | 6 |
| N. Hollywood, CA (Extra Space Development, L.L.C.) | 9,251 | 79 | 140 | 31 | 110 |
| Dallas, TX (Inwood Limited Partnership) | 12,491 | 107 | 230 | 51 | 158 |
| Alpharetta, GA (Winward Self Storage, LLC) | 3,121 | 48 | 105 | 42 | 90 |
| Rockville, MD (Parklawn Storage Partners, L.P.) | 11,242 | 192 | 270 | 120 | 312 |
| Neptune, NJ (Jason's Self Storage of Neptune, NJ) | 8,745 | 168 | 230 | 115 | 283 |
| Allen, TX (Advantage Self Storage) | 5,525 | 106 | 120 | 60 | 166 |
| Totals | \$ 63,222 | \$ 709 | \$ 1,461 | \$ 427 | \$ 1,136 |

| | Depreciable Assets | Depreciation for Period Prior to Acquisition | Intangibles | Amortization for Period Prior to Acquisition | Total Depreciation / Amortization for Period Prior to Acquisition |
|---------------------------------|-----------------------|---|-------------|---|--|
| 16 Un-Audited Properties | | | | | |
| Tacoma (Pacific Hwy), WA | \$ 5,239 | \$ 17 | \$ 166 | \$ 14 | \$ 31 |
| Tacoma (80th Street), WA | 4,766 | 15 | 156 | 13 | 28 |
| Tacoma (Tacoma Way), WA | 3,093 | 10 | 117 | 10 | 20 |
| Bensalem, PA | 2,999 | 19 | 62 | 10 | 29 |
| Houston (Pasadena), TX | 4,063 | 30 | 112 | 22 | 52 |
| Garland, TX | 2,216 | 17 | | 96 | 19 36 |
| Nashville, TN | 2,598 | 19 | | 88 | 17 36 |
| Houston (SW Fwy), TX | 8,690 | 65 | | 242 | 47 112 |
| Wichita, KS | 1,897 | 14 | | 76 | 15 29 |
| Phoenix, AZ | 3,441 | 44 | 85 | 28 | 72 |
| Lancaster, CA | 5,799 | 87 | 130 | 51 | 138 |
| Rowlett, TX | 2,585 | 40 | 70 | 28 | 68 |
| Parker, CO | 4,543 | 79 | 76 | 34 | 113 |
| Plano (Plano Pkwy), TX | 6,191 | 119 | 140 | 70 | 189 |
| Plano (Spring Creek), TX | 3,761 | 72 | 90 | 45 | 117 |
| Tampa, FL | 3,518 | 68 | 100 | 50 | 118 |
| Totals | \$ 65,449 | \$ 715 | \$ 1,806 | \$ 473 | \$ 1,188 |
| Grand Total | | | | | \$ 2,324 |

(6) Debt of \$23,562 was assumed on four properties with an average fixed rate of 6.19%. Another four properties are part of a new loan that was closed in the third quarter of 2006. The debt allocable to these four properties totals \$20,172 with interest at a fixed rate of 6.18%. The pro forma statement of operations assumes that all of the debt was in place on January 1, 2005. These properties are shown below.

Nine Audited Properties Debt

| Property | Debt | Rate | Non-Owned Period Interest | Type |
|---|------------------|-------------|--|--------------|
| Venice, FL (CFG Properties) | \$ 7,096 | 6.18 | % \$ 14 | New Debt |
| Dacula, FL (Little River Vest, L.L.C.) | 3,879 | 6.18 | % 10 | New Debt |
| Rockville, MD (Parklawn Storage Partners, L.P.) | 12,680 | 6.08 | % 514 | Assumed Debt |
| Alpharetta, GA (Winward Self Storage, LLC) | 2,955 | 5.43 | % 97 | Assumed Debt |
| Total | \$ 26,610 | | \$ 635 | |

Sixteen Non-Audited Properties Debt

| Property | Debt | Rate | Non-Owned Period Interest | Type |
|--------------------------|------------------|-------------|--|--------------|
| Tacoma (Pacific Hwy), WA | \$ 4,600 | 6.18 | % \$ 36 | New Debt |
| Tacoma (80th Street), WA | 4,597 | 6.18 | % 36 | New Debt |
| Houston (SW Fwy), TX | 5,126 | 7.00 | % 100 | Assumed Debt |
| Houston (Pasadena), TX | 2,801 | 6.01 | % 48 | Assumed Debt |
| Total | \$ 17,102 | | \$ 220 | |
| Grand Total | | | \$ 855 | |

(7) Interest income was reduced by \$805 to reflect the use of net cash in the acquisitions.

EXTRA SPACE STORAGE INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2005

(in thousands, except per share data)

| | Historical EXR (1) | Nine Audited Acquisitions (2) | Sixteen Un- Audited Acquisitions (3) | Pro Forma Adjustments | Pro Forma EXR |
|--|--------------------------|-------------------------------------|---|--------------------------|------------------|
| Revenues: | | | | | |
| Property rental | \$ 120,640 | \$ 7,968 | \$ 8,539 | \$ | \$ 137,147 |
| Management and franchise fees | 10,650 | | | | 10,650 |
| Tenant insurance | 1,882 | | | | 1,882 |
| Acquisition and development fees | 992 | | | | 992 |
| Other income | 564 | | | | 564 |
| Total revenues | 134,728 | 7,968 | 8,539 | | 151,235 |
| Expenses: | | | | | |
| Property operations | 45,963 | 3,593 | 3,596 | (485) | (4) 52,667 |
| Tenant insurance | 1,023 | | | | 1,023 |
| Unrecovered development/acquisition costs and support payments | 302 | | | | 302 |
| General and administrative | 24,081 | | | | 24,081 |
| Depreciation and amortization | 31,005 | | | 5,477 | (5) 36,482 |
| Total expenses | 102,374 | 3,593 | 3,596 | 4,992 | 114,555 |
| Income before interest, minority interests, equity in earnings of real estate ventures | 32,354 | 4,375 | 4,943 | (4,992) |) 36,680 |
| Interest expense | (42,549) |) | | (2,704) | (6) (45,253) |
| Interest income | 1,625 | | | (1,625) | (7) |
| Minority interest - Operating Partnership | 434 | | | | 434 |
| Equity in earnings of real estate ventures | 3,170 | | | | 3,170 |
| Net income (loss) | \$ (4,966) |) \$ 4,375 | \$ 4,943 | \$ (9,321) |) \$ (4,969) |
| Basic and diluted loss per common share | \$ (0.14) |) | | | \$ (0.14) |
| Weighted average number of common shares-basic and diluted | 35,481,538 | | | | 35,481,538 |

EXTRA SPACE STORAGE INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF
OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2005

(in thousands, except per share data)

(1) Reflects the results of operations of EXR as filed in Form 10-K for the year ended December 31, 2005.

(2) Represents the pro forma revenues and operating expenses for the year ended December 31, 2005 of the nine audited properties acquired in 2006:

| Property | Nine Audited Properties Financial Statements | | |
|--|--|----------|-----------|
| | Revenues | Expenses | Mgmt. Fee |
| Deland, FL (Deland Vest, L.L.C.) | \$ 516 | \$ 319 | \$ 35 |
| Venice, FL (CFG Properties) | 1,079 | 485 | 74 |
| Dacula, FL (Little River Vest, L.L.C.) | 583 | 283 | 39 |
| N. Hollywood, CA (Extra Space Development, L.L.C.) | 327 | 344 | 37 |
| Dallas, TX (Inwood Limited Partnership) | 1,367 | 473 | 68 |
| Alpharetta, GA (Winward Self Storage, LLC) | 584 | 279 | 40 |
| Rockville, MD (Parklawn Storage Partners, L.P.) | 1,434 | 461 | 80 |
| Neptune, NJ (Jason's Self Storage of Neptune, NJ) | 1,378 | 616 | 69 |
| Allen, TX (Advantage Self Storage) | 700 | 333 | 43 |
| TOTALS | \$ 7,968 | \$ 3,593 | \$ 485 |

(3) Represents the unaudited pro forma revenues and operating expenses (excluding management fees) for the year ended December 31, 2005 of the 16 additional properties that were acquired in 2006:

| 16 Un-Audited Properties | Revenues | Expenses |
|--------------------------|----------|----------|
| Tacoma (Pacific Hwy), WA | \$ 646 | \$ 275 |
| Tacoma (80th Street), WA | 653 | 260 |
| Tacoma (Tacoma Way), WA | 78 | 92 |
| Bensalem, PA | 262 | 197 |
| Houston (Pasadena), TX | 697 | 334 |
| Garland, TX | 501 | 293 |
| Nashville, TN | 528 | 286 |
| Houston (SW Fwy), TX | 1,376 | 525 |
| Wichita, KS | 455 | 290 |
| Phoenix, AZ | 423 | 171 |
| Lancaster, CA | 740 | 190 |
| Rowlett, TX | 379 | 161 |
| Parker, CO | 107 | 85 |
| Plano (Plano Pkwy), TX | 675 | 168 |
| Plano (Spring Creek), TX | 501 | 137 |
| Tampa, FL | 518 | 132 |
| TOTALS | \$ 8,539 | \$ 3,596 |

(4) Adjustment to eliminate the management fee paid to a third party for management of the properties as subsequent to acquisition by the Company, all properties are self-managed.

Edgar Filing: Extra Space Storage Inc. - Form 8-K

(5) Depreciation and amortization expense adjustments of \$2,593 on audited transactions includes real estate depreciation of \$1,620 computed on a straight-line basis over the estimated useful life (39 years) on depreciable assets acquired of \$63,222 and amortization of \$973 computed on a straight-line basis over 18 months on \$1,461 of intangible assets relating to tenant relationships. Depreciation and amortization expense adjustments of \$2,884 on non-audited transactions includes real estate depreciation of \$1,677 computed on a straight-line basis over the estimated useful life (39 years) on depreciable assets acquired of \$65,449 and amortization of \$1,207 computed on a straight-line basis over 18 months on \$1,806 of intangible assets relating to tenant relationships.

| | Depreciable Assets | 2005 Depreciation | Intangible Assets | 2005 Amortization | Total 2005 Depreciation / Amortization |
|--|-----------------------|----------------------|----------------------|----------------------|--|
| Nine Audited Properties | | | | | |
| Deland, FL (Deland Vest, L.L.C.) | \$ 3,953 | \$ 101 | \$ 96 | \$ 64 | \$ 165 |
| Venice, FL (CFG Properties) | 5,907 | 151 | 170 | 113 | 264 |
| Dacula, FL (Little River Vest, L.L.C.) | 2,990 | 77 | 100 | 67 | 144 |
| N. Hollywood, CA (Extra Space Development, L.L.C.) | 9,251 | 237 | 140 | 93 | 330 |
| Dallas, TX (Inwood Limited Partnership) | 12,491 | 320 | 230 | 153 | 473 |
| Alpharetta, GA (Winward Self Storage, LLC) | 3,121 | 80 | 105 | 70 | 150 |
| Rockville, MD (Parklawn Storage Partners, L.P.) | 11,242 | 288 | 270 | 180 | 468 |
| Neptune, NJ (Jason's Self Storage of Neptune, NJ) | 8,745 | 224 | 230 | 153 | 377 |
| Allen, TX (Advantage Self Storage) | 5,525 | 142 | 120 | 80 | 222 |
| Totals | \$ 63,222 | \$ 1,620 | \$ 1,461 | \$ 973 | \$ 2,593 |

| | Depreciable Assets | 2005 Depreciation | Intangible Assets | 2005 Amortization | Total 2005 Depreciation / Amortization |
|---------------------------------|-----------------------|----------------------|----------------------|----------------------|--|
| 16 Un-Audited Properties | | | | | |
| Tacoma (Pacific Hwy), WA | \$ 5,239 | \$ 134 | \$ 166 | \$ 111 | \$ 245 |
| Tacoma (80th Street), WA | 4,766 | 122 | 156 | 104 | 226 |
| Tacoma (Tacoma Way), WA | 3,093 | 79 | 117 | 79 | 158 |
| Bensalem, PA | 2,999 | 77 | 62 | 41 | 118 |
| Houston (Pasadena), TX | 4,063 | 104 | 112 | 75 | 179 |
| Garland, TX | 2,216 | 57 | 96 | 64 | 121 |
| Nashville, TN | 2,598 | 67 | 88 | 59 | 126 |
| Houston (SW Fwy), TX | 8,690 | 223 | 242 | 161 | 385 |
| Wichita, KS | 1,897 | 49 | 76 | 51 | 100 |
| Phoenix, AZ | 3,441 | 88 | 85 | 57 | 145 |
| Lancaster, CA | 5,799 | 149 | 130 | 87 | 236 |
| Rowlett, TX | 2,585 | 66 | 70 | 47 | 113 |
| Parker, CO | 4,543 | 115 | 76 | 51 | 166 |
| Plano (Plano Pkwy), TX | 6,191 | 160 | 140 | 93 | 253 |
| Plano (Spring Creek), TX | 3,761 | 96 | 90 | 60 | 156 |
| Tampa, FL | 3,518 | 90 | 100 | 67 | 157 |
| Totals | \$ 65,449 | \$ 1,677 | \$ 1,806 | \$ 1,207 | \$ 2,884 |
| Grand Total | | | | | \$ 5,477 |

(6) Debt of \$23,562 was assumed on four properties with an average fixed rate of 6.19%. Another four properties are part of a new loan that was closed in the third quarter of 2006. The allocated debt amount on these four properties totals \$20,172 with interest at a fixed rate of 6.18%. These properties are shown below.

Nine Audited Properties Debt

| Property | Debt | Rate | Annual Interest | Type |
|---|------------------|------|-----------------|--------------|
| Venice, FL (CFG Properties) | \$ 7,096 | 6.18 | % \$ 439 | New Debt |
| Dacula, FL (Little River Vest, L.L.C.) | 3,879 | 6.18 | % 240 | New Debt |
| Rockville, MD (Parklawn Storage Partners, L.P.) | 12,680 | 6.08 | % 771 | Assumed Debt |
| Alpharetta, GA (Winward Self Storage, LLC) | 2,955 | 5.43 | % 160 | Assumed Debt |
| Total | \$ 26,610 | | \$ 1,610 | |

Sixteen Non-Audited Properties Debt

| Property | Debt | Rate | Annual Interest | Type |
|--------------------------|------------------|------|-----------------|--------------|
| Tacoma (Pacific Hwy), WA | \$ 4,600 | 6.18 | % \$ 284 | New Debt |
| Tacoma (80th Street), WA | 4,597 | 6.18 | % 284 | New Debt |
| Houston (SW Fwy), TX | 5,126 | 7.00 | % 358 | Assumed Debt |
| Houston (Pasadena), TX | 2,801 | 6.01 | % 168 | Assumed Debt |
| Total | \$ 17,102 | | \$ 1,094 | |
| Grand Total | | | \$ 2,704 | |

(7) Interest income was reduced by \$1,625 to reflect the use of net cash in the acquisitions.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by Deland Vest, L.L.C.(the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc. s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007

Deland Vest, L.L.C.

STATEMENTS OF REVENUES AND CERTAIN EXPENSES

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year ended December 31, 2005 |
|---|---|-----------------------------|---|
| Revenues: | | | |
| Rents | \$ 405 | \$ 354 | \$ 485 |
| Other | 26 | 21 | 31 |
| Total | 431 | 375 | 516 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 220 | 216 | 284 |
| Management fees | 30 | 26 | 35 |
| Total | 250 | 242 | 319 |
| Revenues in excess of certain expenses | \$ 181 | \$ 133 | \$ 197 |

The accompanying notes are an integral part of this statement.

17

Deland Vest, L.L.C.

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In January 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by Deland Vest, L.L.C. (the property). The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in Deland, Florida.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property's historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.

18

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by CFG Properties(the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc. s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007

19

CFG Properties**STATEMENTS OF REVENUES AND CERTAIN EXPENSES**

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year ended December 31, 2005 |
|---|---|-----------------------------|---|
| Revenues: | | | |
| Rents | \$ 661 | \$ 762 | \$ 1,008 |
| Other | 40 | 56 | 71 |
| Total | 701 | 818 | 1,079 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 268 | 321 | 411 |
| Management fees | 49 | 56 | 74 |
| Total | 317 | 377 | 485 |
| Revenues in excess of certain expenses | \$ 384 | \$ 441 | \$ 594 |

The accompanying notes are an integral part of this statement.

20

CFG Properties

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In January 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by CFG Properties (the property). The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in Venice, Florida.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property's historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.

21

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by Little River Vest, L.L.C. (the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc.'s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007

Little River Vest, L.L.C.

STATEMENTS OF REVENUES AND CERTAIN EXPENSES

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year ended December 31, 2005 |
|---|---|-----------------------------|---|
| Revenues: | | | |
| Rents | \$ 430 | \$ 400 | \$ 539 |
| Other | 40 | 31 | 44 |
| Total | 470 | 431 | 583 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 191 | 180 | 244 |
| Management fees | 33 | 29 | 39 |
| Total | 224 | 209 | 283 |
| Revenues in excess of certain expenses | \$ 246 | \$ 222 | \$ 300 |

The accompanying notes are an integral part of this statement.

Little River Vest, L.L.C.

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In January 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by Little River Vest, L.L.C. (the property). The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in Dacula, Florida.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property's historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.

24

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by Extra Space Development, LLC (the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc.'s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007

25

Extra Space Development, LLC

STATEMENTS OF REVENUES AND CERTAIN EXPENSES

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year Ended December 31, 2005 |
|--|--|---------------------|---|
| Revenues: | | | |
| Rents | \$ 576 | \$ 157 | \$ 290 |
| Other | 44 | 28 | 37 |
| Total | 620 | 185 | 327 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 264 | 226 | 307 |
| Management fees | 37 | 33 | 37 |
| Total | 301 | 259 | 344 |
| Revenues in excess of (short of) certain expenses | \$ 319 | \$ (74) | \$ (17) |

The accompanying notes are an integral part of this statement.

Extra Space Development, LLC

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In May 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by Extra Space Development, LLC (the property). The property had commenced rental operations in January 2005. The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in North Hollywood, California. Extra Space Development, LLC is owned by certain shareholders of the REIT. The property was in its initial lease up stage throughout the periods presented.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property's historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Extra Space Storage Inc.

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by Inwood Limited Partnership (the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc.'s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007

Inwood Limited Partnership**STATEMENTS OF REVENUES AND CERTAIN EXPENSES**

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year Ended December 31, 2005 |
|---|---|-----------------------------|---|
| Revenues: | | | |
| Rents | \$ 1,060 | \$ 997 | \$ 1,335 |
| Other | 27 | 23 | 32 |
| Total | 1,087 | 1,020 | 1,367 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 284 | 306 | 405 |
| Management fees | 54 | 51 | 68 |
| Total | 338 | 357 | 473 |
| Revenues in excess of certain expenses | \$ 749 | \$ 663 | \$ 894 |

The accompanying notes are an integral part of this statement.

29

Inwood Limited Partnership

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In May 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by Inwood Limited Partnership (the property). The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in Dallas, Texas.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property's historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.

30

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Extra Space Storage Inc.

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by Winward Self Storage, LLC (the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc.'s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007

Winward Self Storage, LLC**STATEMENTS OF REVENUES AND CERTAIN EXPENSES**

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year Ended December 31, 2005 |
|---|---|-----------------------------|---|
| Revenues: | | | |
| Rents | \$ 424 | \$ 410 | \$ 540 |
| Other | 30 | 35 | 44 |
| Total | 454 | 445 | 584 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 152 | 185 | 239 |
| Management fees | 32 | 31 | 40 |
| Total | 184 | 216 | 279 |
| Revenues in excess of certain expenses | \$ 270 | \$ 229 | \$ 305 |

The accompanying notes are an integral part of this statement.

32

Winward Self Storage, LLC

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In August 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by Winward Self Storage, LLC (the property). The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in Alpharetta, Georgia.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property's historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Extra Space Storage Inc.

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by Parklawn Storage Partners, L.P.(the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc.'s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007

Parklawn Storage Partners, L.P.**STATEMENTS OF REVENUES AND CERTAIN EXPENSES**

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year Ended December 31, 2005 |
|---|---|-----------------------------|---|
| Revenues: | | | |
| Rents | \$ 1,092 | \$ 1,020 | \$ 1,365 |
| Other | 39 | 58 | 69 |
| Total | 1,131 | 1,078 | 1,434 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 280 | 295 | 381 |
| Management fees | 56 | 63 | 80 |
| Total | 336 | 358 | 461 |
| Revenues in excess of certain expenses | \$ 795 | \$ 720 | \$ 973 |

The accompanying notes are an integral part of this statement.

35

Parklawn Storage Partners, L.P.

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In September 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by Parklawn Storage Partners, L.P. (the property). The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in Rockville, Maryland.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property's historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.

36

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Extra Space Storage Inc.

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by Advantage Self Storage (the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage, Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc.'s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007

Advantage Self Storage**STATEMENTS OF REVENUES AND CERTAIN EXPENSES**

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year Ended December 31, 2005 |
|---|---|-----------------------------|---|
| Revenues: | | | |
| Rents | \$ 543 | \$ 484 | \$ 664 |
| Other | 29 | 25 | 36 |
| Total | 572 | 509 | 700 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 226 | 217 | 290 |
| Management fees | 34 | 31 | 43 |
| Total | 260 | 248 | 333 |
| Revenues in excess of certain expenses | \$ 312 | \$ 261 | \$ 367 |

The accompanying notes are an integral part of this statement.

38

Advantage Self Storage

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In November 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by Advantage Self Storage (the property). The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in Allen, Texas.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property's historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of revenues and certain expenses of the property previously owned by Jason's Self Storage of Neptune, New Jersey (the Property) for the year ended December 31, 2005 (the statement). The statement is the responsibility of the management of Extra Space Storage, Inc. Our responsibility is to express an opinion on the statement based on our audit.

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

The accompanying statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Extra Space Storage Inc.'s Current Report on Form 8-K. Material expense amounts, as described in Note 1 to the statement, that would not be comparable to those resulting from the proposed future operations of the Property, are excluded and the statement is not intended to be a complete presentation of the revenues and expenses of the Property.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LC

Salt Lake City, Utah
January 15, 2007
40

Jason's Self Storage of Neptune, New Jersey**STATEMENTS OF REVENUES AND CERTAIN EXPENSES**

(dollars in thousands)

| | For the Nine Months Ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year Ended December 31, 2005 |
|---|---|-----------------------------|---|
| Revenues: | | | |
| Rents | \$ 884 | \$ 911 | \$ 1,325 |
| Other | 11 | 10 | 53 |
| Total | 895 | 921 | 1,378 |
| Certain expenses (Note 1): | | | |
| Property operating expenses | 385 | 368 | 547 |
| Management fees | 52 | 50 | 69 |
| Total | 437 | 418 | 616 |
| Revenues in excess of certain expenses | \$ 458 | \$ 503 | \$ 762 |

The accompanying notes are an integral part of this statement.

Jason s Self Storage of Neptune, New Jersey

NOTES TO STATEMENTS OF REVENUES AND CERTAIN EXPENSES

1. ACQUISITION OF PROPERTY, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Acquisition of Property

In November 2006, Extra Space Storage Inc. (the REIT) acquired a property owned by Jason s Self Storage of Neptune, New Jersey (the property). The REIT did not hold any interest in the property prior to the acquisition. The controlling interest in the property was held by a single entity. The property consists of land and self-storage facilities located in Neptune, New Jersey.

Basis of presentation

The accompanying statements of revenues and certain expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the actual operations of the property for the periods presented. Certain expenditures may not be comparable to the future operations of the property. Excluded expenses consist of interest, depreciation and amortization, and other expenses not directly related to the future operations of the property.

The statements of revenues and certain expenses for the nine months ended September 30, 2006 and 2005 are unaudited. In the opinion of management, these interim financial statements reflect all necessary adjustments for a fair presentation of the revenues and certain expenses of the respective periods. All such adjustments are of a normal recurring nature.

Revenue recognition

The property recognizes rental revenue daily on a straight-line basis over the terms of the leases. Generally, leases are on month-to-month terms. Tenants move in and out throughout the month and revenue is recognized on a pro-rata basis for the days each unit is occupied during the month.

The property recognizes revenue for merchandise sales as the sales take place. Revenue for late fees and other miscellaneous items are included in other revenue as earned under the terms of the rental contracts.

Expense recognition

Property expenses, including utilities, repairs and maintenance and other costs to manage the facilities are recognized as incurred. Expenses such as property taxes and property insurance are recognized over their respective assessment or coverage periods. The property recognizes bad debt expense based upon the property s historical collection experience and current economic trends.

Use of estimates

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

2. OPERATING LEASES

Operating revenue is principally obtained from tenant rentals under month-to-month operating leases.