

Extra Space Storage Inc.
Form 8-K/A
December 02, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

Amendment No. 2

to

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 14, 2005

Extra Space Storage Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction

of incorporation)

2795 Cottonwood Parkway, Suite 400

001-32269
(Commission File Number)

201076777
(IRS Employer

Identification Number)

84121

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Salt Lake City, UT
(Address of principal executive offices)

(Zip Code)

801-562-5556

Registrant's telephone number, including area code

N/A

(Former name or former address, if changed since last report.)

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))
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ITEM 2.01 Completion of Acquisition or Disposition of Assets

On July 20, 2005, Extra Space Storage Inc. (the Company) filed a Form 8-K with regard to the closing of an acquisition (the Transaction) by the Company, through its subsidiaries Extra Space Storage LLC (ESS LLC) and Extra Space Storage LP (ESS OP), of various entities that collectively comprise the Storage USA self-storage business pursuant to the Purchase and Sale Agreement, dated as of May 5, 2005, between ESS LLC, ESS OP, Security Capital Self Storage Incorporated, a Delaware corporation, PRISA Self Storage LLC, a Delaware limited liability company, PRISA II Self Storage LLC, a Delaware limited liability company, PRISA III Self Storage LLC, a Delaware limited liability company, VRS Self Storage LLC, a Delaware limited liability company, WCOT Self Storage LLC, a Delaware limited liability company, and The Prudential Insurance Company of America, a New Jersey corporation.

On September 27, 2005, the Company filed a Form 8-K/A, describing the Transaction more fully and for the purpose of providing the financial statements of the business acquired and the Company's pro forma financial information, reflecting the Transaction.

The Company now amends the aforementioned Form 8-K/A in order to amend the pro forma financial information regarding the Transaction which was filed on September 27, 2005. Specifically, the pro forma financial information included herein reflects changes from the pro forma financial information included in the September 27, 2005 Form 8-K/A, including:

In the Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended June 30, 2005 and for the year ended December 31, 2004, lock and packaging income and expense for the Storage USA Carve-out Company were previously presented on net basis and included in property rental revenue and now lock and packaging expense has been reclassified from property rental revenue to property operations expenses. There was no impact to net income (loss) for the six months ended June 30, 2004 and December 31, 2004.

For the year ended December 31, 2004, \$1.9 million of gain on sale of real estate assets, which was not included previously, has now been included and results in an increase of \$1.9 million to net income (loss) of the Unaudited Pro Forma Condensed Consolidated Statement of Operations.

Disclosures in adjustments No. 2 and 5 for the unaudited pro forma condensed statements of operations for the six months ended June 30, 2005 and for the year ended December 31, 2004 were expanded to more clearly describe the adjustments to which they give effect and the related assumptions.

The Company also amends the aforementioned Form 8-K/A to amend certain information contained in the notes to the Storage USA Carve-out Company's combined unaudited financial statements for the six months ended June 30, 2005 as follows:

Note 4 (b) Investments in Joint Ventures relating to the Heitman Joint Venture (which represents an unconsolidated joint venture investment in which the Storage USA Carve-out Company holds a 20% equity interest) was corrected to increase the total third party debt from \$1.6 million to \$67.4 million as of June 30, 2005. There was no impact to the Storage USA Carve-out Company's equity investment as shown in the Storage USA Carve-out Company balance sheet as of June 30, 2005. Nor was there any impact on the Storage USA Carve-out Company net income for the six months ended June 30, 2005.

Note 7 (b) Mortgage Notes Payable relating to the fixed rate mortgage note payable totaling \$5.2 million as of June 30, 2005 was shown previously as \$2.2 million in the footnote, but was properly shown on the face of the balance sheet.

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ITEM 9.01 Financial Statements and Exhibits

Set forth below is the pro forma financial information regarding the Transaction that are required to be filed as part of this Form 8-K/A:

- (a) *Pro Forma Financial Information.*
- (b) *Financial Statements of Business Acquired.*
- (c) *Exhibits.*

None.

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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.

By: /s/ Kent W. Christensen

Kent W. Christensen
Chief Financial Officer

Date: December 2, 2005

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EXTRA SPACE STORAGE INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

The following unaudited pro forma condensed consolidated financial information of Extra Space Storage Inc. (the Company or EXR) as of and for the six months ended June 30, 2005 and for the year ended December 31, 2004 has been derived from the historical audited financial statements of Extra Space Storage Inc. as filed in the Company's 2004 Form 10K and the Company's unaudited 2005 second Quarter 10Q. In addition, the audited statements of the Storage USA (SUSA) Carve-out Company consisting of: (i) 61 self-storage properties; (ii) all Franchise rights of General Electric (GE) relative to Storage USA Franchises; (iii) GE's equity position in various franchises and three joint ventures involving 54 properties; (iv) assumption of 10 Franchise Notes Receivables; and (v) the assets and liabilities of various SUSA entities owned by GE, included in this filing and the equity position purchased with Prudential Real Estate Investors (PREI) in five joint ventures involving 259 properties purchased from GE. The assets of the SUSA Carve-out Company and the equity position purchased with PREI were purchased from GE in a transaction (the Transaction) that closed on July 14, 2005.

The pro forma condensed consolidated balance sheet reflects adjustments to the Company's historical financial data to give effect to the following as if each had occurred on June 30, 2005: (i) the acquisition of the SUSA Carve-out Company; (ii) the acquisition of an equity position in five separate joint ventures held with PREI, involving 259 self-storage properties purchased from GE; and (iii) the completion of certain financing transactions.

The pro forma condensed consolidated statement of operations reflects adjustments to the Company's historical financial data to give effect to the following as if each had occurred on January 1, 2004: (i) the acquisition of the SUSA Carve-out Company; (ii) the acquisition of a minority equity position in five separate joint ventures with PREI involving 259 self-storage properties purchased from GE; (iii) the acquisition of certain properties by the Company during 2004 and 2005; (iv) the interest impact from certain financing transactions; and (v) to give effect to certain transactions that occurred in 2004 as if they occurred on January 1, 2004 because in the opinion of EXR the pro forma financial presentation related to these transactions provides material information about the impact of these events on ongoing operations.

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 would have been as of the date and for the period 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.

Table of Contents**EXTRA SPACE STORAGE INC.****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**

As of June 30, 2005

(in thousands, except per share data)

| | SUSA Carve- out Company and Equity Interest in | | | Pro Forma |
|---|---|---------------------|---------------------|---------------------|
| | Historical | PREI JV | Financing | |
| | <u>Extra Space</u> | <u>Acquisitions</u> | <u>Transactions</u> | |
| | (1) | (2) | (3) | |
| Assets | | | | |
| Real estate assets: | | | | |
| Net operating real estate assets | \$ 759,237 | \$ 438,345 | \$ | \$ 1,197,582 |
| Real estate under development | 4,332 | 172 | | 4,504 |
| | <u>763,569</u> | <u>438,517</u> | | <u>1,202,086</u> |
| Investments in real estate ventures | 7,773 | 88,646 | | 96,419 |
| Cash and cash equivalents | 95,042(a) | (538,780) | 447,855(a) | 4,117 |
| Restricted cash | 5,996 | 9,430 | | 15,426 |
| Receivables from related parties | 3,264 | | | 3,264 |
| Other assets, net | 26,266 | 43,406 | 5,613(a) | 75,285 |
| Total assets | <u>\$ 901,910</u> | <u>\$ 41,219</u> | <u>\$ 453,468</u> | <u>\$ 1,396,597</u> |
| Liabilities, Minority Interests and Stockholders Equity | | | | |
| Line of credit | \$ | \$ | \$ 10,000 | \$ 10,000 |
| Notes payable | 480,743 | 10,270 | 402,230(b) | 893,243 |
| Notes payable to trusts | 78,352 | | 41,238(c) | 119,590 |
| Accounts payable and accrued expenses | 1,281 | 3,763 | | 5,044 |
| Other liabilities | 12,341 | 4,499 | | 16,840 |
| Total liabilities | <u>572,717</u> | <u>18,532</u> | <u>453,468</u> | <u>1,044,717</u> |
| Minority interest in Operating Partnership | 20,045 | 22,687 | | 42,732 |
| Other minority interests | 225 | | | 225 |
| 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, 37,369,950 shares issued and outstanding at June 30, 2005 | 374(b) | | | 374 |
| Paid-in capital | 429,179(b) | | | 429,179 |
| Accumulated deficit | (120,630) | | | (120,630) |

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| | | | | |
|--|-------------------|------------------|-------------------|---------------------|
| Total stockholders' equity | <u>308,923</u> | <u></u> | <u></u> | <u>308,923</u> |
| Total liabilities, minority interests and stockholders' equity | <u>\$ 901,910</u> | <u>\$ 41,219</u> | <u>\$ 453,468</u> | <u>\$ 1,396,597</u> |

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EXTRA SPACE STORAGE INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

BALANCE SHEET

(in thousands, except per share data)

(1) The historical column reflects the assets, liabilities and members equity of Extra Space Storage Inc. as filed on form 10Q.

(a) On June 24, 2005 EXR executed a private placement offering (Offering). Cash proceeds from the Offering are shown below:

| | |
|-------------------------|-------------------|
| Gross Offering proceeds | \$ 83,514 |
| Less Offering costs | (2,155) |
| | <u> </u> |
| Net proceeds | <u>\$ 81,359</u> |

(b) In the Offering we issued 6,200 shares of \$0.01 par common stock at \$13.47 per share, for \$83,514 of gross proceeds, before offering costs of \$2,155. The costs of common stock related to this Offering include \$2,155 of underwriting discounts and commissions and financial advisory fees.

Common stock and additional paid-in-capital consist of the following:

| | |
|---|-------------------|
| Issuance of 6,200 shares of common stock at \$13.47 per share | \$ 83,514 |
| Less Offering costs | (2,155) |
| | <u> </u> |
| Common stock and paid in capital from the Offering | <u>\$ 81,359</u> |

(2) Represents the purchase price of all assets purchased in the Transaction including the following:

The purchase of 61 Self-Storage operating sites and one piece of undeveloped land. \$10,270 in property debt was assumed.

The purchase of franchise contracts with 74 franchisees and the assumption of \$39,967 in franchise loans receivable.

The purchase of the equity interest in 54 properties held in three separate joint ventures and 25 individual joint venture properties held with Franchisees.

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Other assets and liabilities acquired as part of the Transaction, including the issuance of \$22,687 in Extra Space Storage LP (ESSLP), Operating Partnership (OP) units to SUSA OP unit holders that traded their SUSA OP units for OP units in ESSLP.

The purchase of the equity interest in 259 properties held in five separate joint ventures with PREI.

Table of Contents**EXTRA SPACE STORAGE INC.****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED****BALANCE SHEET**

(in thousands)

| | 61 Operating | Franchise | Investment | Other Assets | Total SUSA | SUSA Carve- |
|--|-------------------|------------------|------------------|---------------------|------------------|------------------|
| | Properties | Investments | in Various | & | Carve-out | out Company |
| | | | Joint | Liabilities | Company | and Equity in |
| | | | Ventures | | Acquisition | PREI JV |
| | | | | | Acquisitions | PREI JV |
| | | | | | | Acquisitions |
| Assets | | | | | | |
| Real estate assets: | | | | | | |
| Net operating real estate assets | \$ 438,345 | \$ | \$ | \$ | \$ 438,345 | \$ 438,345 |
| Real estate under development | 172 | | | | 172 | 172 |
| | <u>438,517</u> | | | | <u>438,517</u> | <u>438,517</u> |
| Investments in real estate ventures | | 7,300 | 40,776 | | 48,076 | 88,646 |
| Cash and cash equivalents | | | | (498,210) | (498,210) | (538,780) |
| Restricted cash | | | | 9,430 | 9,430 | 9,430 |
| Other assets, net | | 39,967 | | 3,439 | 43,406 | 43,406 |
| | <u>\$ 438,517</u> | <u>\$ 47,267</u> | <u>\$ 40,776</u> | <u>\$ (485,341)</u> | <u>\$ 41,219</u> | <u>\$ 41,219</u> |
| Liabilities and Minority Interests | | | | | | |
| Notes payable | \$ 10,270 | \$ | \$ | \$ | \$ 10,270 | \$ 10,270 |
| Accounts payable and accrued expenses | | | | 3,763 | 3,763 | 3,763 |
| Other liabilities | | | | 4,499 | 4,499 | 4,499 |
| | <u>10,270</u> | | | <u>8,262</u> | <u>18,532</u> | <u>18,532</u> |
| Minority interest in Operating Partnership | | | | 22,687 | 22,687 | 22,687 |
| | <u>\$ 10,270</u> | <u>\$</u> | <u>\$</u> | <u>\$ 30,949</u> | <u>\$ 41,219</u> | <u>\$ 41,219</u> |

(3) Represents financing transactions including issuance of new indebtedness and repayment of certain existing indebtedness.

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(a) The Company received net cash from the financing transactions as follows:

| | |
|---|-------------------|
| Cash from 5.29% fixed rate senior mortgage due 2012 | \$ 213,000 |
| Cash from 5.26% fixed rate senior mortgage due 2012 | 100,000 |
| Cash from variable rate loan due on collection of Franchise Notes Receivable, Libor plus 3.00%. (6.34% at June 30, 2004) | 28,000 |
| Cash from bridge loan due on January 14, 2006, Libor plus 1.50% until November 14, 2005 and Libor plus 2.50% until January 14, 2006. (4.84% as of June 30, 2006) | 61,230 |
| Cash from 6.91% fixed rate Trust Preferred Security due 2035 | 41,238 |
| Cash form advance on Revolving Credit Line | 10,000 |
| Less cash used to invest in required offsetting investment in entity involved with the Trust Preferred Security | (1,238) |
| Less loan origination fees on new mortgages and other debt. | (4,375) |
| Net cash provided by financing transactions | \$ 447,855 |

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EXTRA SPACE STORAGE INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

BALANCE SHEET

(in thousands)

(b) The Company incurred the following new indebtedness:

| | |
|--|-------------------|
| 5.29% fixed rate senior mortgage due 2012 | \$ 213,000 |
| 5.26% fixed rate senior mortgage due 2012 | 100,000 |
| Variable rate loan due on collection of Franchise Notes Receivable, Libor plus 3.00%. (6.34% at June 30, 2004) | 28,000 |
| Bridge loan due on January 14, 2006, Libor plus 1.50% until November 14, 2005 and Libor plus 2.50% until January 14, 2006. (4.84% as of June 30, 2006) | 61,230 |
| | <u>\$ 402,230</u> |

(c) The Company incurred the following additional Note Payable Trust:

| | |
|--|------------------|
| 6.91% fixed rate Trust Preferred Security due 2035 | <u>\$ 41,238</u> |
| | <u>\$ 41,238</u> |

Table of Contents**EXTRA SPACE STORAGE INC****Unaudited Pro Forma Condensed Consolidated Statement of Operations**

For the Six Months Ended June 30, 2005

(in thousands, except per share data)

| | Historical Extra Space | Total Income from SUSA Carve-out Company & PREI JVs | 2005 Other Acquisitions | Financing Transactions | Other Adjustments | Pro Forma |
|---|---------------------------|--|-------------------------------|---------------------------|----------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) | |
| Revenues | | | | | | |
| Property rental | \$ 46,041 | \$ 28,331 | \$ 888 | \$ | | \$ 75,260 |
| Franchise Fees | | 865 | | | | 865 |
| Management Fees | 768 | 8,209 | | | | 8,977 |
| Acquisition and development fees | 529 | | | | | 529 |
| Other income | 197 | 1,340 | | | | 1,537 |
| Total Revenues | 47,535 | 38,745 | 888 | | | 87,168 |
| Expenses | | | | | | |
| Property operations | 17,919 | 10,214 | 353 | | | 28,486 |
| Unrecovered development/acquisition costs and support payments | 275 | | | | | 275 |
| General and administrative | 6,297 | 11,500 | | | | 17,797 |
| Depreciation and amortization | 11,943 | 6,862 | 258 | | | 19,063 |
| Total Expenses | 36,434 | 28,576 | 611 | | | 65,621 |
| Income before interest expense, minority interests and equity in real estate ventures | 11,101 | 10,169 | 277 | | | 21,547 |
| Interest expense | (13,732) | | | (14,653) | | (28,385) |
| Minority interest - Operating Partnership | 166 | | | | 234 | 400 |
| Equity in earnings of real estate ventures | 605 | 2,341 | | | | 2,946 |
| Net income (loss) | \$ (1,860) | \$ 12,510 | \$ 277 | \$ (14,653) | \$ 234 | \$ (3,492) |
| Basic loss per share | \$ (0.06) | | | | | \$ (0.09) |
| Diluted loss per share | \$ (0.06) | | | | | \$ (0.09) |
| Weighted average common shares outstanding Basic | 31,514,394 | | | | | 37,369,950 |
| Weighted average common shares outstanding Diluted | 31,514,394 | | | | | 37,369,950 |

Table of Contents**EXTRA SPACE STORAGE INC****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED****STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2005**

(in thousands)

(1) The historical column reflects the results of operations of EXR as filed in form 10Q.

(2) Represents the pro forma income from operations of the SUSA Carve-out Company and the EXR Equity interest in the PREI Joint Ventures.

| | SUSA Carve- out Company | Adjustments | PREI Joint Ventures | Total Income from SUSA Carve-out Company & PREI JVs |
|---|-------------------------------|-----------------|------------------------|--|
| Revenues: | | | | |
| Property rental | \$ 26,062 | \$ 2,266 (a) | \$ | \$ 28,328 |
| Lock and Packaging Income | 1,692 | (1,692)(a) | | |
| Tenant insurance income | 1,874 | (1,874)(a) | | |
| Franchise Royalty Income | 865 | | | 865 |
| Management Fees | 1,882 | | 6,327 (g) | 8,209 |
| Other income | | 1,340 (e) | | 1,340 |
| Total Revenues | 32,375 | 40 | 6,327 | 38,742 |
| Expenses: | | | | |
| Property operations | 9,905 | 306 (b) | | 10,211 |
| Lock and packaging expense | 1,216 | (1,216)(b) | | |
| Tenant insurance claims reserve | 1,297 | (1,297)(a) | | |
| Real estate taxes | 2,688 | (2,688)(b) | | |
| General and administrative | 5,225 | | 6,275 (c) | 11,500 |
| Depreciation and amortization | 5,179 | 1,683 (d) | | 6,862 |
| Total Expenses | 25,510 | (3,212) | 6,275 | 28,573 |
| Income before interest expense, equity in earnings of real estate ventures and income taxes | 6,865 | 3,252 | 52 | 10,169 |
| Interest expense, net | (1,452) | 1,452 (e) | | |
| Equity in earnings of real estate ventures | 1,687 | | 654 (h) | 2,341 |
| Net income from continuing operations | 7,100 | 4,704 | 706 | 12,510 |
| Provision for income taxes | 386 | (386)(f) | | |
| Net income attributable to Common Unitholders | \$ 6,714 | \$ 5,090 | \$ 706 | \$ 12,510 |

- (a) Lock and packaging and tenant insurance income and tenant insurance expense were reclassified into property rental income to reflect EXR's historical presentation of these sources of income.
- (b) Property operations have been reduced by \$3,598 for general corporate overhead that was allocated to the operations of these properties from the SUSA corporate office (which is not included in SUSA Carve-out Company) which allocation would not have occurred had EXR owned and operated these properties, and increased by property taxes and lock and packaging expense to reflect EXR's historical presentation of this expense.
- (c) General and administrative expense was adjusted to reflect the pro forma cost that EXR estimates will be necessary to manage these properties owned by PREI Joint Ventures for which it earns its management fee (see adjustment (g) below). These costs are based on an average square foot historical cost derived by EXR based on experience in operating and managing self storage facilities over the last twenty years.
- (d) Depreciation and amortization expense was adjusted to \$6,862. This amount is comprised of depreciation of \$3,571 computed on a straight line basis over the estimated useful life (40 years) on depreciable assets acquired of \$285,714 and amortization of \$32, \$368, and \$2,891 computed on a straight line basis over the estimated lives of 11 years, 25 years and 18 months on \$708 of lease rights, \$18,385 of leasehold improvements and \$8,672 of intangible assets relating to tenant relationships, respectively, acquired. The adjustment of \$1,683 reflects the additional depreciation and amortization that results from the increase in basis recorded by EXR upon its acquisition of real estate assets.

Table of Contents**EXTRA SPACE STORAGE INC****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED****STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2005**

(in thousands)

- (e) Historical interest expense has been eliminated in this presentation because all interest expense is added to the pro forma presentation in adjustment No. 4 to reflect the financing that EXR used for this transaction as if the transaction and related financing were in place as of January 1, 2004. Interest income of \$1,340 has been reclassified to other income to reflect EXR's historical presentation of this source of income.
- (f) No tax liability is shown as the pro forma statement of operations reflects a net loss.
- (g) Represents the 6% management fee that will be earned by EXR. This amount is calculated using the historical gross revenue of the managed properties for the six month period.
- (h) Represents EXR's portion of the JV earnings based on the JV historical net income times EXR's capital ownership percent.

(3) Represents the pro forma income from operations for the period for the eight sites acquired by EXR since January 1, 2004 as if such acquisition had occurred on January 1, 2004. Depreciation and amortization expense adjustment of \$258 includes depreciation of \$164 computed on a straight line basis over the estimated useful life (40 years) on depreciable assets acquired of \$42,843, and amortization of \$94 computed on a straight line basis over the estimated life of 18 months on \$949 of intangible assets relating to tenant relationships acquired.

(4) Represents the consummation of the financing transactions, as if such financing had occurred on January 1, 2004, consisting of the following:

Adjustments to net pro forma interest expense computed as follows:

| | |
|---|--------|
| Interest expense adjustments: | |
| 4.95% senior fixed rate mortgage of \$32,502 due 2015 | \$ 302 |
| 4.87% senior fixed rate mortgage of \$13,400 due 2015 | 50 |
| Assumed 6.88% fixed rate CMBS Mortgage due 2010 | 22 |
| Assumed 5.94% fixed rate CMBS Mortgage due 2010 | 64 |
| Assumed 5.80% fixed rate CMBS Mortgage due 2010 | 89 |
| Assumed 5.40% fixed rate CMBS Mortgage due 2010 | 138 |
| 6.53% Trust Preferred Security Note due 2035 | 716 |
| 6.67% Trust Preferred Security Note due 2035 | 1,079 |
| 6.91% Trust Preferred Security Note due 2035 | 1,382 |
| 5.29% senior fixed rate mortgage of \$213,000 due 2015 | 5,629 |
| 5.26% senior fixed rate mortgage of \$100,000 due 2010 | 2,630 |
| Variable rate Bridge loan of \$61,230 due December 2005, based upon a spread of 1.50% over LIBOR (4.84% at June 30, 2005) | 1,638 |
| Variable rate Bridge loan of \$28,000 due June 2006, based upon a spread of 2.00% over LIBOR (5.34% at June 30, 2004) | 818 |
| Less interest expense on loans repaid in the financing transaction: | |
| Corporate Credit lines and unsecured debt | (189) |

| | |
|----------------------------------|---------------|
| Net increase in interest expense | <u>14,368</u> |
|----------------------------------|---------------|

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EXTRA SPACE STORAGE INC

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2005

(in thousands)

| | |
|---|-----------|
| Loan origination cost amortization adjustment: | |
| Loan origination cost amortization on new loans: | |
| 4.95% senior fixed rate mortgage of \$32,502 due 2015 | \$ 5 |
| 4.87% senior fixed rate mortgage of \$13,400 due 2015 | 8 |
| 6.53% Trust Preferred Security Note due 2035 | 18 |
| 6.67% Trust Preferred Security Note due 2035 | 21 |
| 6.91% Trust Preferred Security Note due 2035 | 20 |
| 5.29% senior fixed rate mortgage of \$213,000 due 2015 | 82 |
| 5.26% senior fixed rate mortgage of \$100,000 due 2010 | 77 |
| Variable rate Bridge loan of \$61,230 due December 2005, based upon a spread of 1.50% over LIBOR (4.84% at June 30, 2005) | 172 |
| Variable rate Bridge loan of \$28,000 due June 2006, based upon a spread of 2.00% over LIBOR (5.34% at June 30, 2004) | 57 |
| Less - loan origination cost amortization related to repaid indebtedness | (175) |
| | <hr/> |
| Net increase in loan origination cost amortization expense, included with interest expense | 285 |
| | <hr/> |
| Total increase in pro forma interest expense | \$ 14,653 |
| | <hr/> |

At the completion of the offering we expect to have variable rate debt of \$239,970. A change of 1% in the interest rate will result in a change in interest expense of \$2,400.

(5) Adjusts Minority Interest for the change in Net Income due to the pro forma adjustments.

Table of Contents**EXTRA SPACE STORAGE INC.****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****FOR THE YEAR ENDED DECEMBER 31, 2004****(in thousands, except per share date)**

| | Historical Extra Space | Total Income from SUSA Carve-out Company & PREI JVs | 2004 & 2005 Other Acquisitions | Financing Transactions | Other Adjustments | Pro Forma |
|---|---------------------------|---|--------------------------------------|---------------------------|----------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) | |
| Revenues | | | | | | |
| Property rental | \$ 62,656 | \$ 51,386 | \$ 28,939 | \$ | \$ (397)(a) | \$ 142,584 |
| Franchise Fees | | 1,782 | | | | 1,782 |
| Management Fees | 1,651 | 15,485 | (442) | | | 16,694 |
| Acquisition and development fees | 1,200 | | | | | 1,200 |
| Other income | 464 | 3,434 | | | | 3,898 |
| Total Revenues | 65,971 | 72,087 | 28,497 | | (397) | 166,158 |
| Expenses | | | | | | |
| Property operations | 26,066 | 20,197 | 11,165 | | (533)(a) | 56,895 |
| Unrecovered development/acquisition costs and support payments | 739 | | | | | 739 |
| General and administrative | 12,465 | 23,000 | | | | 35,465 |
| Depreciation and amortization | 15,552 | 13,724 | 8,037 | | (81)(a) | 37,232 |
| Total Expenses | 54,822 | 56,921 | 19,202 | | (614) | 130,331 |
| Income before interest expense, loss on debt extinguishments, minority interests, equity in earnings of real estate ventures and gain on sale of real estate ventures | 11,149 | 15,166 | 9,295 | | 217 | 35,827 |
| Interest expense | (32,014) | | | (24,957) | 5,145 (a)(b) | (51,826) |
| Minority interest - Other | (846) | | | | 846 (a) | |
| Minority interest - Operating Partnership | 113 | | | | 604 (c) | 717 |
| Equity in earnings of real estate ventures | 1,387 | 4,215 | | | (255)(a) | 5,347 |
| Income (loss) before gain on sale of real estate assets | (20,211) | 19,381 | 9,295 | (24,957) | 6,557 | (9,935) |
| Gain on sale of real estate assets | 1,749 | 1,926 | | | | 3,675 |
| Net income (loss) | \$ (18,462) | \$ 21,307 | \$ 9,295 | \$ (24,957) | \$ 6,557 | \$ (6,260) |
| Preferred return on Class B, C, and E units | (5,758) | | | | 5,758 (b) | |

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| | | | | | | |
|--|-------------|-----------|----------|-------------|-----------|------------|
| Loss on early redemption of Fidelity minority interest | (1,478) | | | | 1,478 (b) | |
| Net income (loss) attributable to common stockholders | \$ (25,698) | \$ 21,307 | \$ 9,295 | \$ (24,957) | \$ 13,793 | \$ (6,260) |
| Basic loss per share | \$ (1.68) | | | | | \$ (0.15) |
| Diluted loss per share | \$ (1.68) | | | | | \$ (0.15) |
| Weighted average basic shares outstanding | 15,282,725 | | | | | 41,647,527 |
| Weighted average diluted shares outstanding | 15,282,725 | | | | | 41,647,527 |

Table of Contents**EXTRA SPACE STORAGE INC.****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED****STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004**

(in thousands)

(1) The historical column reflects the results of operations of EXR as filed in form 10K.

(2) Represents the pro forma income from operations of the Storage USA Carve-out Company and the EXR Equity interest in the PREI Joint Ventures.

| | SUSA Carve- out Company | Adjustments | PREI Joint Ventures | Total Income from SUSA Carve-out Company & PREI JVs |
|--|----------------------------|----------------|------------------------|---|
| Revenues: | | | | |
| Rental and other property income | \$ 46,576 | \$ 4,810 (a) | \$ | \$ 51,386 |
| Lock and packaging income | 3,567 | (3,567)(a) | | |
| Tenant insurance income | 3,799 | (3,799)(a) | | |
| Franchise royalty income | 1,782 | | | 1,782 |
| Service and other income | 3,226 | | 12,259 (f) | 15,485 |
| Other income | | 3,434 (e) | | 3,434 |
| Total revenues | 58,950 | 878 | 12,259 | 72,087 |
| Expenses: | | | | |
| Cost of property operations and maintenance | 18,286 | 1,911 (b) | | 20,197 |
| Lock and packaging expense | 2,647 | (2,647)(b) | | |
| Tenant insurance claims reserve | 2,556 | (2,556)(a) | | |
| Real estate taxes | 5,542 | (5,542)(b) | | |
| General and administrative | 9,231 | | 13,769 (c) | 23,000 |
| Depreciation and amortization | 10,162 | 3,562 (d) | | 13,724 |
| Total expenses | 48,424 | (5,272) | 13,769 | 56,921 |
| Income (loss) from operations | 10,526 | 6,150 | (1,510) | 15,166 |
| Interest expense, net | (2,514) | 2,514 (e) | | |
| Equity in earnings of real estate ventures | 3,079 | | 1,136 (h) | 4,215 |
| Gain on sale of investment in real estate ventures | 1,926 | | | 1,926 |
| Income before income taxes | 13,017 | 8,664 | (374) | 21,307 |
| Provision from income taxes | 1,382 | (1,382)(g) | | |

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| | | | | |
|------------|-----------|-----------|----------|-----------|
| Net income | \$ 11,635 | \$ 10,046 | \$ (374) | \$ 21,307 |
|------------|-----------|-----------|----------|-----------|

-
- (a) Lock and packaging and tenant insurance income and tenant insurance expense were reclassified into property rental income to reflect EXR's historical presentation of these sources of income.
- (b) Property operations have been reduced by \$6,278 of general corporate overhead that was allocated to the operations of these properties from the SUSA corporate office (which is not included in SUSA Carve-out Company) which allocation would not have occurred had EXR owned and operated these properties, and increased by property taxes and lock and packaging expense to reflect EXR's historical presentation of this expense.
- (c) General and administrative expense was adjusted to reflect the pro forma cost that EXR estimates will be necessary to manage these properties owned by PREI Joint Ventures for which it earns its management fee (see adjustment (f) below). These costs are based on an average square foot historical cost derived by EXR based on experience in operating and managing self storage facilities over the last twenty years.
- (d) Depreciation and amortization expense was adjusted to \$13,724. This amount is comprised of depreciation of \$7,143 computed on a straight line basis over the estimated useful life (40 years) on depreciable assets acquired of \$285,714, and amortization of \$64, \$735, and \$5,762 computed on a straight line basis over the estimated lives of 11 years, 25 years and 18 months on \$708 of Lease rights, \$18,385 of Leasehold Improvements and \$8,672 of intangible assets relating to tenant relationships, respectively, acquired. The adjustment of \$3,562 reflects the additional depreciation and amortization that results from the increase in basis recorded by EXR upon its acquisition of real estate assets.

Table of Contents**EXTRA SPACE STORAGE INC.****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004**

(in thousands)

- (e) Historical interest expense has been eliminated in this presentation because all interest expense is added to the pro forma presentation in note 4 to reflect the financing that ER used for this transaction as if the transaction and related financing were as of January 1, 2004. Interest income of \$3,434 has been reclassified to other income to reflect EXR's historical presentation of this source of income.
- (f) Represents the 6% management fee that will be collected by EXR. This amount is calculated using the historical Gross Revenue of the managed properties for 2004.
- (g) No tax liability is shown as the pro forma statement of operation reflects a loss.
- (h) Represents EXR's portion of the JV earnings based on the JV historical net income times EXR's capital ownership percent.
- (3) Represents the pro forma income from operations of 47 sites acquired by EXR since January 1, 2004. Depreciation and amortization expense adjustment of \$8,037 includes depreciation of \$4,956 computed on a straight line basis over the estimated useful life (40 years) on depreciable assets acquired of \$338,655, and amortization of \$3,081 computed on a straight line basis over the estimated life of 18 months on \$7,924 of intangible assets relating to tenant relationships acquired.
- (4) Represents the consummation of the financing transactions, as if such financing had occurred on January 1, 2004, consisting of the following:

Adjustments to net pro forma interest expense computed as follows:

| Interest expense adjustments: | |
|---|--------|
| 4.70% senior fixed rate mortgage of \$83,100 due 2009 | \$ 933 |
| 4.79% senior fixed rate mortgage of \$68,400 due 2011 | 690 |
| 5.14% senior fixed rate mortgage of \$111,000 due 2010 | 3,202 |
| 4.95% senior fixed rate mortgage of \$32,502 due 2015 | 1,609 |
| 4.87% senior fixed rate mortgage of \$13,400 due 2015 | 653 |
| Assumed 6.88% fixed rate CMBS Mortgage due 2010 | 287 |
| Assumed 5.94% fixed rate CMBS Mortgage due 2010 | 130 |
| Assumed 5.80% fixed rate CMBS Mortgage due 2010 | 179 |
| Assumed 5.40% fixed rate CMBS Mortgage due 2010 | 275 |
| 6.53% Trust Preferred Security Note due 2035 | 2,286 |
| 6.67% Trust Preferred Security Note due 2035 | 2,735 |
| 6.91% Trust Preferred Security Note due 2035 | 2,764 |
| 5.29% senior fixed rate mortgage of \$213,000 due 2015 | 11,257 |
| 5.26% senior fixed rate mortgage of \$100,000 due 2010 | 5,260 |
| Variable rate senior mortgage of \$37,000 due 2007, based upon a spread of 1.75% over LIBOR (5.17% at December 31, 2004) | 786 |
| Variable rate senior mortgage of \$61,770 due 2009, based upon a spread of 0.655% over LIBOR (3.075% at December 31, 2004) | 129 |
| Variable rate Bridge loan of \$61,230 due December 2005, based upon a spread of 1.50% over LIBOR (3.92% at December 31, 2004) | 1,798 |
| | 962 |

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| | |
|---|-----------|
| Variable rate Bridge loan of \$28,000 due June 2006, based upon a spread of 2.00% over LIBOR (5.42% at December 31, 2004) | |
| Assumed variable rate Construction loan of \$3,829 due 2006, based upon a spread of 2.75% over LIBOR (5.17% at December 31, 2004) | 160 |
| Adjustment for other minority interest | 1,622 |
| Less interest expense on loans repaid in the financing transaction: | |
| Corporate Credit lines and unsecured debt | (4,801) |
| Senior variable rate mortgage due 2004, LIBOR plus 3.00% per annum with a floor of 6.00%(6.00% at December 31, 2004) | (1,083) |
| Senior variable rate mortgage due 2005, LIBOR plus 3.50% per annum with a floor of 5.50%(5.92% at December 31, 2004) | (2,146) |
| Senior variable rate mortgage due 2005, LIBOR plus 3.00% per annum(5.42% at December 31, 2004) | (1,355) |
| Various individual property senior mortgages and construction loans | (4,202) |
| | <hr/> |
| Net increase in interest expense | \$ 24,130 |
| | <hr/> |

Table of Contents**EXTRA SPACE STORAGE INC.****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004**

(in thousands)

| | |
|---|-----------|
| Loan origination cost amortization adjustment: | |
| Loan origination cost amortization on new loans: | |
| 4.70% senior fixed rate mortgage of \$83,100 due 2009 | \$ 234 |
| 4.79% senior fixed rate mortgage of \$68,400 due 2011 | 175 |
| 5.14% senior fixed rate mortgage of \$111,000 due 2010 | 423 |
| 4.95% senior fixed rate mortgage of \$32,502 due 2015 | 10 |
| 4.87% senior fixed rate mortgage of \$13,400 due 2015 | 15 |
| 6.53% Trust Preferred Security Note due 2035 | 37 |
| 6.67% Trust Preferred Security Note due 2035 | 42 |
| 6.91% Trust Preferred Security Note due 2035 | 41 |
| 5.29% senior fixed rate mortgage of \$213,000 due 2015 | 163 |
| 5.26% senior fixed rate mortgage of \$100,000 due 2010 | 153 |
| Variable rate senior mortgage of \$37,000 due 2007, based upon a spread of 1.75% over LIBOR (5.17% at December 31, 2004) | 140 |
| Variable rate senior mortgage of \$61,770 due 2009, based upon a spread of 0.655% over LIBOR (3.075% at December 31, 2004) | 81 |
| Variable rate Bridge loan of \$61,230 due December 2005, based upon a spread of 1.50% over LIBOR (3.92% at December 31, 2004) | 343 |
| Variable rate Bridge loan of \$28,000 due June 2006, based upon a spread of 2.00% over LIBOR (5.42% at December 31, 2004) | 114 |
| Revolving credit facility | 333 |
| Less - loan origination cost amortization related to repaid indebtedness | (1,477) |
| | <hr/> |
| Net increase in loan origination cost amortization expense, included with interest expense | 827 |
| | <hr/> |
| Total increase in pro forma interest expense | \$ 24,957 |
| | <hr/> |

At the completion of the private placement offering we expect to have variable rate debt of \$239,970. A change of 1% in the interest rate will result in a change in interest expense of \$2,400.

(5) Other adjustments consist of the following:

- a. The following adjustments give effect to certain transactions that occurred during 2004 as if they occurred on January 1, 2004, because in the opinion of EXR, the pro forma financial presentation related to these transactions provides material information about the impact of these events on on-going operations:
 - i. Adjustment to give pro forma effect to the elimination of revenue, expense, interest expense and an allocation of income to minority interest due to the deconsolidation under FIN 46 of a real estate joint venture because of the expiration of a guarantee provided by EXR during 2004, as if the guarantee expiration and the deconsolidation of the real estate joint venture's operations occurred on January 1, 2004.

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- ii. Adjustment to give pro forma effect to the elimination of an allocation of income to minority interest including the related elimination of the loss on early redemption of the minority interest in a consolidated real estate joint venture due to the acquisition of the minority interest which occurred during 2004, as if the acquisition of the minority interest occurred on January 1, 2004.
 - iii. Adjustment to give pro forma effect to the elimination of equity in earnings of real estate ventures and a corresponding increase in revenue and expense from real estate due to the acquisition of the third party majority interests in real estate joint ventures previously accounted for under the equity method, as if the acquisition of the real estate joint ventures interest occurred on January 1, 2004.
 - iv. Adjustment to give effect to the conversion of Class B, C, and E preferred units which were converted to common stock as part of the IPO, as if the conversion occurred on January 1, 2004.
- b. Adjustment to give pro forma effect to a reduction in interest expense due to additional costs related to the early payoff of debt using proceeds from EXR's initial public offering (IPO) which occurred during 2004 as if the IPO occurred on January 1, 2004 and the related proceeds were used to payoff the debt. In the opinion of EXR, the pro forma financial presentation related to this transaction provides material information about the impact of this event on on-going operations.
- c. Adjustment to give pro forma effect to the allocation to minority interest - operating partnership for the minority interest - operating partnership's share of the various pro forma adjustments .

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Storage USA Carve-out Company

INDEX TO COMBINED FINANCIAL STATEMENTS

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Independent Auditors Report

The Board of Directors

Extra Space Storage, Inc.:

We have audited the accompanying combined balance sheets of Storage USA Carve-out Company as of December 31, 2004 and 2003, and the related combined statements of operations, equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These combined financial statements are the responsibility of the Carve-out Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Carve-out Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Storage USA Carve-out Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Memphis, Tennessee

September 23, 2005

Table of Contents**Storage USA Carve-out Company**

Combined Balance Sheets

(amounts in thousands)

| | <u>June 30,</u> | <u>December 31,</u> | |
|---|--------------------|---------------------|----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | <u>(unaudited)</u> | | |
| Assets | | | |
| Investments in storage facilities | \$ 372,809 | \$ 375,977 | \$ 334,577 |
| Accumulated depreciation | (24,947) | (20,124) | (10,764) |
| | <u>347,862</u> | <u>355,853</u> | <u>323,813</u> |
| Cash and cash equivalents | 44 | 47 | 52 |
| Cash held by captive insurance subsidiary | 8,042 | 6,960 | 5,043 |
| | <u>8,086</u> | <u>7,007</u> | <u>5,095</u> |
| Total cash and cash equivalents | 8,086 | 7,007 | 5,095 |
| Advances and investments in real estate ventures and franchisees, net of allowance for losses | 54,990 | 60,272 | 100,401 |
| Due from related parties | 6,042 | 8,790 | 2,088 |
| Intangible assets, net | 40,984 | 41,124 | 41,636 |
| Other assets, net | 6,428 | 8,668 | 6,958 |
| | <u>464,392</u> | <u>481,714</u> | <u>479,991</u> |
| Total assets | \$ 464,392 | \$ 481,714 | \$ 479,991 |
| Liabilities and Equity | | | |
| Notes payable | \$ 68,901 | \$ 69,202 | \$ 69,803 |
| Mortgage notes payable | 5,162 | 9,200 | 6,832 |
| Other borrowings | | | 2,212 |
| Accounts payable and accrued expenses | 11,096 | 14,189 | 13,640 |
| Unfavorable lease liability | 4,437 | 4,661 | 5,111 |
| Deferred tax liabilities | 816 | 673 | 70 |
| Deferred revenue | 2,198 | 2,019 | 1,995 |
| Tenant insurance claims reserve | 1,609 | 1,266 | 869 |
| | <u>94,219</u> | <u>101,210</u> | <u>100,532</u> |
| Total liabilities | 94,219 | 101,210 | 100,532 |
| Equity | 370,173 | 380,504 | 379,459 |
| | <u>464,392</u> | <u>481,714</u> | <u>479,991</u> |
| Total liabilities and equity | \$ 464,392 | \$ 481,714 | \$ 479,991 |

See accompanying notes to combined financial statements.

Table of Contents**Storage USA Carve-out Company**

Combined Statements of Operations

(amounts in thousands)

| | Six months ending June 30, | | For the years ending December 31, | | |
|--|----------------------------|-----------------|-----------------------------------|-----------------|--------------------|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| | (unaudited) | | | | |
| Operating revenues | | | | | |
| Rental and other property income | \$ 26,062 | \$ 22,102 | \$ 46,576 | \$ 42,112 | \$ 40,420 |
| Service and other income | 1,882 | 1,326 | 3,226 | 3,799 | 4,225 |
| Lock and packaging income | 1,692 | 1,929 | 3,567 | 3,675 | 3,493 |
| Tenant insurance income | 1,874 | 1,748 | 3,799 | 4,186 | 3,754 |
| Franchise royalty income | 865 | 927 | 1,782 | 2,035 | 2,025 |
| Total operating revenues | 32,375 | 28,032 | 58,950 | 55,807 | 53,917 |
| Operating expenses | | | | | |
| Cost of property operations and maintenance | 9,905 | 8,729 | 18,286 | 15,137 | 15,432 |
| Lock and packaging expense | 1,216 | 1,333 | 2,647 | 2,699 | 2,800 |
| Tenant insurance claims reserve | 1,297 | 1,278 | 2,556 | 2,879 | 2,241 |
| Real estate taxes | 2,688 | 2,251 | 5,542 | 4,767 | 4,060 |
| General and administrative | 5,225 | 4,594 | 9,231 | 8,736 | 8,875 |
| Legal and acquisition/merger costs | | | | | 49,322 |
| Loss on extinguishment of debt | | | | | 4,400 |
| Provision for impairment | | | | 4,206 | |
| Depreciation and amortization | 5,179 | 4,971 | 10,162 | 7,793 | 8,965 |
| Total operating expenses | 25,510 | 23,156 | 48,424 | 46,217 | 96,095 |
| Income (loss) from operations | 6,865 | 4,876 | 10,526 | 9,590 | (42,178) |
| Interest expense | (2,792) | (3,028) | (5,948) | (7,355) | (7,635) |
| Interest income | 1,340 | 1,829 | 3,434 | 5,278 | 6,740 |
| Equity in earnings of real estate ventures | 1,687 | 1,391 | 3,079 | 1,834 | 1,484 |
| Gain on sale of investment in real estate ventures | | 1,046 | 1,926 | 283 | |
| Income (loss) before income taxes | 7,100 | 6,114 | 13,017 | 9,630 | (41,589) |
| Provision (benefit) for income taxes | 386 | 691 | 1,382 | 524 | (367) |
| Net income (loss) | \$ 6,714 | \$ 5,423 | \$ 11,635 | \$ 9,106 | \$ (41,222) |

See accompanying notes to combined financial statements.

Table of Contents**Storage USA Carve-out Company**

Combined Statements of Cash Flow

(amounts in thousands)

| | Six months ended June 30, | | Years ended December 31, | | |
|--|---------------------------|----------|--------------------------|----------|-------------|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| | (unaudited) | | | | |
| Cash flows from operating activities: | | | | | |
| Net income (loss) | \$ 6,714 | \$ 5,423 | \$ 11,635 | \$ 9,106 | \$ (41,222) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 5,179 | 4,971 | 10,162 | 7,793 | 8,965 |
| Amortization of note premium | (301) | (301) | (601) | (990) | (675) |
| Provision for impairment | | | | 4,206 | |
| Deferred tax expenses (benefit) | 143 | 302 | 603 | 524 | (367) |
| Equity in earnings of real estate ventures | 1,687 | 1,391 | 3,079 | 1,834 | 1,484 |
| Distribution from investment in real estate ventures | 1,068 | 1,143 | 2,708 | 1,553 | 1,909 |
| Gain on sale of investment in real estate ventures | | (1,046) | (1,926) | (283) | |
| Increase (decrease) in cash due to changes in: | | | | | |
| Other assets | 2,024 | (1,136) | (2,000) | 1,634 | (5,520) |
| Accounts payable and accrued expenses | (3,093) | 7,367 | 549 | (1,238) | 12,026 |
| Deferred revenue | 298 | 899 | (29) | (592) | 182 |
| Net cash provided by (used in) operating activities | 13,719 | 19,013 | 24,180 | 23,547 | (23,218) |
| Cash flows from investing activities: | | | | | |
| Acquisition, development, and improvement of storage facilities | (14,878) | (32,886) | (42,310) | (4,864) | (1,194) |
| Proceeds from sale of land | | | 910 | | |
| Advances and investments in real estate | (839) | (2,257) | (8,489) | (42,900) | (4,872) |
| Repayment of advances to franchisees | 3,366 | 36,580 | 44,757 | 50,955 | 26,343 |
| Net cash provided by (used in) investing activities | (12,351) | 1,437 | (5,132) | 3,191 | 20,277 |
| Cash flows from financing activities: | | | | | |
| Change in due from related party | 2,748 | 1,158 | (6,702) | (737) | 1,198 |
| Proceeds from borrowings | 5,162 | | 9,243 | | |
| Payments on borrowings | (200) | | (9,087) | (41) | |
| Equity contributions | 3,377 | | 21,825 | 466 | 1,196 |
| Equity distributions and redemptions | (11,376) | (20,651) | (32,415) | (22,799) | |
| Net cash provided by (used in) financing activities | (289) | (19,493) | (17,136) | (23,111) | 2,394 |
| Net increase (decrease) in cash and cash equivalents | 1,079 | 957 | 1,912 | 3,627 | (547) |
| Cash and cash equivalents, beginning of the period | 7,007 | 5,095 | 5,095 | 1,468 | 2,015 |
| Cash and cash equivalents, end of the period | \$ 8,086 | \$ 6,052 | \$ 7,007 | \$ 5,095 | \$ 1,468 |

| | Six months ended June 30, | | Years ended December 31, | | |
|--|---------------------------|----------|--------------------------|----------|-----------|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| | (unaudited) | | | | |
| Supplemental schedule of cash flow information | | | | | |
| Interest paid, net of amounts capitalized | \$ 3,318 | \$ 2,933 | \$ 5,736 | \$ 7,160 | \$ 8,882 |
| Equity redemption in exchange for \$18.0 million of land subject to a \$9.0 million note | 9,046 | | | | |
| Equity issued in exchange for repayment of notes payable by GE Capital | | | | (13,000) | |
| Fair value adjustments to the net assets in connection with the GE Capital acquisition | | | | | (222,227) |

See accompanying notes to combined financial statements.

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Storage USA Carve-out Company

Combined Statements of Equity

(amounts in thousands)

| | |
|--|------------|
| Balance at December 31, 2001 | \$ 197,485 |
| Net loss | (41,222) |
| Contributions | 1,196 |
| Fair value adjustments to the net assets in connection with the GE Capital Acquisition | 222,227 |
| | <hr/> |
| Balance at December 31, 2002 | 379,686 |
| Net income | 9,106 |
| Contributions | 13,466 |
| Distributions and redemptions | (22,799) |
| | <hr/> |
| Balance at December 31, 2003 | 379,459 |
| Net income | 11,635 |
| Contributions | 21,825 |
| Distributions and redemptions | (32,415) |
| | <hr/> |
| Balance at December 31, 2004 | 380,504 |
| Net income (unaudited) | 6,714 |
| Contributions (unaudited) | 3,377 |
| Distributions and redemptions (unaudited) | (20,422) |
| | <hr/> |
| Balance at June 30, 2005 (unaudited) | \$ 370,173 |
| | <hr/> |

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Storage USA Carve-out Company

Notes to Combined Financial Statements

June 30, 2005 (unaudited) and December 31, 2004 and 2003

(amounts in thousands)

1. Organization and Basis of Presentation

Storage USA (SUSA) was formed to acquire, develop, construct, franchise, own and operate self-storage facilities throughout the United States. The SUSA self-storage business is comprised of the following entities: SUSA Partnership, L.P. (the Partnership or SUSA, L.P.), Storage USA Franchise Corporation (Franchise), SUSA Management Corporation (SUSA Management), SUSA Finance Corporation (Finance), and certain other related entities. In April 2002, Security Capital Group Incorporated (Security Capital) completed its acquisition of SUSA. Subsequent to the Security Capital acquisition, in May 2002 General Electric Capital (GE Capital) completed its acquisition of Security Capital.

On May 5, 2005, GE Capital entered into a Purchase and Sale Agreement (the Agreement) to sell its interest in SUSA to Extra Space Storage LP (Extra Space) and Prudential Insurance Company of America and certain of its affiliates (Prudential), which subsequently closed on July 14, 2005. Under the Agreement, Prudential was to receive 95% to 98% interests in 259 self-storage properties (the Prudential Properties). The remaining assets and liabilities of SUSA, including 100% interests in 61 self-storage properties and the remaining 2% to 5% interests in the 259 Prudential Properties, were acquired and/or assumed by Extra Space. The transaction was effected in a series of restructuring and contribution transactions pursuant to which substantially all the assets and liabilities of SUSA (other than the Partnership s senior unsecured public debt) were to be transferred to a newly-formed subsidiary of the Partnership (New SUSA LLC). Holders of limited partnership interests in the Partnership received units in New SUSA LLC equal in number to the limited partnership units previously held. In connection with these transactions, Extra Space offered each holder of units in New SUSA LLC the option to exchange their units in New SUSA LLC for either cash or, for eligible unit holders who are accredited investors , units in the operating partnership of Extra Space.

The accompanying combined financial statements of the components of the Storage USA business acquired by Extra Space (the Carve-out Company) are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements have been prepared from SUSA s historical accounting records and are presented on a carve-out basis to include the balances and activity of the Partnership, Franchise, SUSA Management, and Finance, along with various partnerships controlled by these entities and wholly-owned subsidiaries of these entities. Balances and activity relating to the Prudential Properties have been excluded. The Carve-out Company statements of operations and cash flows for the year ended December 31, 2002 include the combined operations and cash flows for the period prior to the Carve-out Company s acquisition by GE Capital, the remaining period during which the Carve-out Company was owned by GE Capital. The financial statements have been prepared using the specific identification of income and expenses and assets and liabilities, if available, and if not available include allocations and estimates which management believes are reasonable and appropriate under the circumstances. No direct relationship exists among all the operations comprising the Carve-out Company. Accordingly, total equity is presented in lieu of stockholders equity.

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(amounts in thousands)

The accompanying combined financial statements include allocations of general and administrative and other overhead expenses, which are included in cost of proposed operations and maintenance on the combined statements of operations, to the Carve-out Company. Carve-out Company management has utilized their experience with the business and its judgment in allocating such expenses. Costs allocated for the six month period ended June 30, 2005 and 2004 and years ended December 31, 2004, 2003 and 2002, were as follows:

| | Six months ending June 30, (unaudited) | | For the years ending December 31, | | |
|----------------------------|--|-----------------|-----------------------------------|------------------|------------------|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| General and administrative | \$ 5,225 | \$ 4,594 | \$ 9,231 | \$ 8,736 | \$ 8,875 |
| Other overhead expenses | 3,594 | 3,088 | 6,277 | 4,529 | 5,986 |
| | \$ 8,819 | \$ 7,682 | \$ 15,508 | \$ 13,265 | \$ 14,861 |

Allocations of general and administrative and other overhead expenses were made primarily based on the number of self-storage properties included in the Carve-out Company to the total number of self-storage facilities managed, which management believes represents a reasonable allocation methodology. However, these allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if the Carve-out Company had been operating as a separate entity. It is not practicable to estimate the costs and expenses that would have resulted on a stand-alone basis.

The financial statements as of June 30, 2005 and for the six months ended June 30, 2005 and 2004 are unaudited. In the opinion of the management of the Carve-out Company, the interim data includes all adjustments necessary for a fair presentation of the results for the interim periods. The results for the interim periods presented are not necessarily indicative of the results that may be expected for the entire year.

2. Summary of Significant Accounting Policies

Principles of Combination

The accompanying combined financial statements include the accounts of the Carve-out Company after elimination of all balances and transactions between the entities included in the Carve-out Company financial statements (i.e. the Partnership, Franchise, SUSA Management, Finance and certain related entities and any of the 61 properties acquired by Extra Space). The financial results of these entities are presented on a combined basis as they are under common control and management of GE Capital. The accompanying combined balance sheets as of June 30,

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2005 (unaudited) and December 31, 2004 and 2003, and the combined statements of operations, cash flows, and equity for the years ended December 31, 2004, 2003 and 2002 and for the six month periods ended June 30, 2005 and 2004 (unaudited) have been prepared on a carve-out basis (see Note 1).

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Use of Estimates

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

Investments in Storage Facilities

Storage facilities are recorded at cost. Depreciation is computed using the straight line method over estimated useful lives of 40 years for buildings and improvements, three to ten years for leasehold improvements, software and furniture, fixtures and equipment. Expenditures for maintenance and repairs are charged to expense as incurred. Major replacements and betterments that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives.

In connection with the Carve-out Company's acquisition of properties, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting primarily of land and buildings, are determined on an as-if vacant basis.

If there is an event or a change in circumstances that indicates the basis of the property may not be recoverable, SUSA's policy is to assess any impairment of value by comparing the sum of the expected future cash flows (undiscounted and without interest charges) to the carrying value of the asset. If the cash flow is less than the carrying value of the asset, an impairment loss will be recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Cash and Cash Equivalents

The Carve-out Company's cash is deposited with financial institutions located throughout the United States of America and at times may exceed federally insured limits. The Carve-out Company considers all highly liquid debt instruments with a maturity date of three months or less to be cash equivalents. Included in cash at June 30, 2005 and December 31, 2004 and 2003 was approximately \$0.5 million (unaudited), \$0.1 million, and \$0.2 million, respectively, of cash remitted to Franchise by franchisees to be used exclusively for the costs incurred by the Carve-out Company in advertising and marketing the franchise.

Investments in Real Estate Ventures and Franchisees

Investments in real estate ventures and franchisees represents the aggregate of the Carve-out Company's investment in real estate ventures and franchisees (Note 4). These investments are accounted for using the equity method of accounting because the Carve-out Company exercises significant influence over the operations of those entities.

For acquisitions of an interest in an entity, the Carve-out Company evaluates the entity to determine if the entity is deemed a Variable Interest Entity (VIE) in accordance with FASB Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R). Entities that meet one or more of the criteria listed below are considered VIEs:

Equity investment is not sufficient to allow the entity to finance its activities without additional third party financing;

The equity investors, as a group, do not have the direct or indirect ability to make decisions about the entity's business;

The equity investors, as a group, are not obligated to absorb the expected losses of the entity;

The equity investors, as a group, do not have the right to receive the expected residual returns of the entity; and

The equity investors' voting rights are not proportionate to its economic interests, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights.

None of the investments of the Carve-out Company have been identified as VIEs. The Carve-out Company will reconsider its determination of whether an entity is a VIE if certain events occur that are likely to cause a change in the original determination.

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(amounts in thousands)

Due from Related Parties

The Carve-out Company incurs certain costs on behalf of the franchisees and other joint venture partners, such as property insurance, for which the Carve-out Company is reimbursed. These amounts and certain other receivables from franchisees and other joint venture parties are presented as Due from related parties on the combined balance sheets.

Intangible Assets

In connection with GE Capital's acquisition of Security Capital in 2002 (see Note 1), GE Capital recognized goodwill in conjunction with this acquisition, of which \$38.9 million has been allocated to the Carve-out Company. Goodwill was allocated to the Carve-out Company based on the ratio of the estimated fair value of the Carve-out Company compared to the total estimated fair value of SUSA acquired in the Extra Space and Prudential purchase transaction (Note 1). Management of the Carve-out Company believes this allocation method to be reasonable. Management of GE Capital evaluated the recoverability of goodwill for each annual period and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. There were no impairment charges recorded in the years ended December 31, 2004, 2003 or 2002 or the six month periods ended June 30, 2005 and 2004.

In-place lease intangibles recorded in connection with the acquisition of self-storage facilities are amortized over the life of the tenant lease term, which is usually less than a six month period as most tenant leases are on a month-to-month basis.

Additionally, the Carve-out Company has intangible assets related to covenants not to compete. The gross amount of these intangible assets is \$4.3 million. These assets are being amortized over the terms of the related contracts. \$2.2 million (unaudited), \$2.0 million, and \$1.5 million of accumulated amortization related to these intangible assets were included as of June 30, 2005, December 31, 2004 and 2003, respectively. Amortization expense was \$0.5 million, \$0.9 million, and \$0.6 million for the years ended December 31, 2004, 2003 and 2002, respectively, and \$0.2 million (unaudited) for the six months ended June 30, 2005 and 2004. Amortization expense is included in depreciation and amortization expense on the statement of operations.

Amortization expense related to these intangibles for the next five years is estimated as follows:

| | |
|------|--------|
| 2005 | \$ 307 |
| 2006 | 307 |
| 2007 | 307 |

| | |
|------|-----|
| 2008 | 307 |
| 2009 | 307 |

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Storage USA Carve-out Company

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(amounts in thousands)

Revenue Recognition

Rental income is recorded when earned. Rental income received prior to the start of the rental period is deferred and included in deferred revenue on the combined balance sheets. Lock and packaging income is recognized when sales of locks and packaging items are made.

Certain of the franchise agreements that the Carve-out Company has with owners of franchised properties allow the Carve-out Company to earn a monthly royalty fee during the operational period of the facility. Royalty fees are calculated based upon a percentage (normally 4%) of Gross Sales, as defined in the franchise agreement. Certain franchisees are also required by the franchise agreement to remit to Franchise a monthly fee in an amount equal to 1% of Gross Sales to be used for costs incurred by the Carve-out Company in advertising and marketing the franchise. Such amounts are not recognized as revenue, but rather are a liability until such time as the funds are used for advertising costs.

Interest income primarily relates to advances to franchisees. Interest income on advances to franchisees is recognized as it is earned.

Rental and Other Property Income

Rental and other property income consists of rental income and other income from property specific activities, such as income associated with late and administrative fees, truck rentals and ground rents for cellular telephone antenna towers and billboards. A summary of these amounts is as follows:

| | Six months ending June 30, | | For the years ending December 31, | | |
|--------------------------------|-----------------------------------|------------------|--|------------------|------------------|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| | (unaudited) | | | | |
| Rental income | \$ 23,397 | \$ 20,429 | \$ 43,119 | \$ 38,830 | \$ 36,950 |
| Other property specific income | 2,665 | 1,673 | 3,457 | 3,282 | 3,470 |
| | \$ 26,062 | \$ 22,102 | \$ 46,576 | \$ 42,112 | \$ 40,420 |

Service and Other Income

Service and other income consists of revenue derived from the Carve-out Company providing services to third parties and related unconsolidated joint ventures. The services provided by the Carve-out Company include the management of self-storage facilities. The Carve-out Company is generally reimbursed a fixed percentage of facility revenues for providing management services to third parties and related unconsolidated joint ventures.

Income Taxes

A provision for income taxes was recorded related to Franchise, which is the only entity included in the Carve-out Company which is subject to income taxes since the taxable income or losses from the self-storage facilities that were owned by the Partnership were passed through to its partners. The provision is based on an estimated combined Federal and State tax rate of 38%. Management of the Carve-out Company believes that this tax rate, which is based on historical information, is a reasonable estimate. This effective tax rate was applied to pre-tax income generated by Franchise to calculate the applicable income tax expense for the Carve-out Company.

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Notes to Combined Financial Statements

June 30, 2005 (unaudited) and December 31, 2004 and 2003

(amounts in thousands)

3. Investment in Storage Facilities

Investment in storage facilities before accumulated depreciation consist of the following:

| | <u>June 30,</u> | <u>December 31,</u> | |
|---|--------------------|---------------------|----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (unaudited) | | |
| Land | \$ 101,672 | 97,234 | 76,309 |
| Buildings and improvements | 248,685 | 257,244 | 240,210 |
| Leasehold improvements | 6,580 | 6,580 | 6,580 |
| Furniture, fixtures and equipment | 3,780 | 3,787 | 2,068 |
| Software | 10,519 | 9,789 | 1,406 |
| Development in progress, including land | 1,573 | 1,343 | 8,004 |
| | <u>\$ 372,809</u> | <u>375,977</u> | <u>334,577</u> |

Also included above are \$8.5 million (unaudited), \$8.4 million and \$6.8 million of corporate leasehold improvements, software and office furniture, fixtures and equipment at June 30, 2005, December 31, 2004 and 2003 respectively, with accumulated depreciation of \$3.2 million (unaudited), \$2.2 million and \$1.2 million.

Storage facility activity, including corporate leasehold improvements, software and office furniture, fixtures and equipment, is summarized as follows:

| | <u>Six months</u> | <u>Years ending</u> | |
|---------------------------------------|------------------------|---------------------|-------------|
| | <u>ending June 30,</u> | <u>December 31,</u> | |
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (unaudited) | | |
| Cost: | | | |
| Balance at beginning of period | \$ 375,977 | 334,577 | 332,813 |
| Facility acquisitions and development | 3,377 | 21,825 | 466 |

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| | | | |
|--------------------------------------|-------------------|-------------------|-------------------|
| Facility expansions and improvements | 11,501 | 20,485 | 4,398 |
| Land dispositions | (18,046) | (910) | |
| Provision for impairment | | | (3,100) |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of period | \$ 372,809 | 375,977 | 334,577 |
| | <u> </u> | <u> </u> | <u> </u> |
| Accumulated Depreciation: | | | |
| Balance at beginning of period | \$ (20,124) | (10,764) | (4,391) |
| Additions during the period | (4,823) | (9,360) | (6,373) |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of period | \$ (24,947) | (20,124) | (10,764) |
| | <u> </u> | <u> </u> | <u> </u> |

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Notes to Combined Financial Statements

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(amounts in thousands)

4. Advances and Investments in Real Estate Ventures and Franchisees

Advances and investments in real estate ventures and franchisees consist of the following:

| | <u>June 30,</u> | <u>December 31,</u> | |
|--|--------------------|---------------------|----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (unaudited) | | |
| Advances to franchisees, net of allowance for losses | \$ 36,157 | 39,523 | 55,357 |
| Storage Portfolio joint venture | 8,074 | 8,239 | 37,068 |
| Heitman joint venture | 6,375 | 5,468 | |
| Investments in franchises and other joint ventures | 4,384 | 7,042 | 7,976 |
| Total advances and investments | \$ 54,990 | 60,272 | 100,401 |

(a) Advances to Franchisees

The Carve-out Company has granted construction advances to franchisees to fund the development of franchised storage facilities. The loans are collateralized by the related properties and have terms up to five years. Typically, interest only is due on the loans during the first two years of the loan term, with amortization of principal commencing in the third year based upon a 25-year amortization schedule. The Carve-out Company advances the funds for construction and start-up costs at a market interest rate based on a spread over the 30-day LIBOR rate or the prime rate and adjusted monthly. Typically, advances represent 70%-90% of the anticipated cost of the project. All activity related to these advances is being accounted for as direct investments in and advances to real estate joint ventures. Interest income is recognized on these advances as earned.

Based upon management assessments of current and historical loss experience, loan portfolio trends, prevailing economic and business conditions, specific loan review and other relevant factors, the need for an allowance for losses associated with these advances is considered. In connection with these assessments, a \$0.7 million (unaudited), a \$0.7 million and a \$0.7 million allowance for losses was recorded as of June 30, 2005 and December 31, 2004 and 2003, respectively.

(b) Investments in Joint Ventures

Storage Portfolio Venture

The Carve-out Company owns a 25% interest in a joint venture that operates 32 self-storage facilities (the Storage Portfolio Venture). The Carve-out Company accounts for its investment in the Storage Portfolio Venture under the equity method. Under the terms of the venture agreement, cash flows from operations will be distributed to each member based on its proportionate equity interest. Until December 22, 2003, 75% of the Storage Portfolio Venture was owned by Fidelity Management Trust Company. On December 22, 2003, Fidelity Management Trust Company sold its 75% share of the Storage Portfolio Venture to Teachers REA II, LLC (Teachers). As part of this transaction, the Carve-out Company and Teachers contributed capital to the Storage Portfolio Venture to pay off the ventures' existing third party debt. In March 2004, the Storage Portfolio Venture entered into a new financing agreement, and the proceeds from this financing were distributed to Teachers and the Carve-out Company.

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(amounts in thousands)

The Carve-out Company recognized \$1.5 million and \$1.2 million and \$1.3 million in equity earnings from the Storage Portfolio Venture for the periods ended December 31, 2004, 2003 and 2002, respectively. The Carve-out Company recognized \$0.5 million (unaudited) and \$0.7 million (unaudited) in equity earnings from the Storage Portfolio Venture for the six month periods ending June 30, 2005 and 2004. The Carve-out Company also recognized \$1.1 million, \$1.3 million and \$1.3 million in management fee revenue for operating the Storage Portfolio Venture's properties during the periods ended December 31, 2004, 2003 and 2002, respectively. Management fee revenue for operating the Storage Portfolio Venture's properties were \$0.6 million (unaudited) and \$0.5 million (unaudited) for the six month periods ended June 30, 2005 and 2004.

The following table summarizes selected financial information related to the Storage Portfolio Venture:

| | Six months | | | | |
|------------------------|-----------------|-----------|-----------------------------------|--------------|------------|
| | ending June 30, | | For the years ending December 31, | | |
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| | (unaudited) | | | | |
| Property revenues | \$ 11,352 | \$ 10,864 | \$ 23,218 | \$ 23,288 | \$ 24,370 |
| Property expenses | 4,796 | 4,307 | 13,083 | 15,413 | 8,975 |
| Net operating income | 6,556 | 6,557 | 10,135 | 7,875 | 15,395 |
| Net income | 2,091 | 3,701 | 5,972 | 571 | 5,060 |
| | | | June 30, | December 31, | |
| | | | 2005 | 2004 | 2003 |
| | | | (unaudited) | | |
| Total assets | | | \$ 168,231 | \$ 140,368 | \$ 136,937 |
| Total third party debt | | | 115,000 | 115,000 | |

Heitman Joint Venture

On June 28, 2004, The Carve-out Company formed a joint venture with Heitman Value Partners (the Storage Portfolio Bravo Venture). The Carve-out Company contributed 21 self-storage facilities with a fair value of \$112 million to the Storage Portfolio Bravo Venture. In return, the Carve-out Company received a 20% interest in the Storage Portfolio Bravo Venture and cash proceeds of approximately \$99 million, which represented Heitman Value Partners' 80% interest in the venture and the Carve-out Company's proportionate share of the proceeds from a \$67 million non-recourse note obtained by the Storage Portfolio Bravo Venture. The transaction was treated as a partial sale for accounting purposes.

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The gain from the partial sale was not considered material. The Carve-out Company will continue to manage these properties for the Venture. The Carve-out Company records its investment in the Storage Portfolio Bravo Venture under the equity method.

The Carve-out Company recognized \$0.6 million (unaudited) and \$0.5 million in equity earnings from the Storage Portfolio Bravo Venture for the six months ended June 30, 2005 and for the year ended December 31, 2004, respectively. The Carve-out Company also recognized \$0.5 (unaudited) and \$0.4 million in management fees for operating the Venture's properties during the six months ended June 30, 2005 and the year ended December 31, 2004.

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June 30, 2005 (unaudited) and December 31, 2004 and 2003

(amounts in thousands)

The following table summarizes selected financial information related to the Storage Portfolio Bravo Venture:

| | Six months ended June 30, | Year ended December 31, |
|------------------------|--------------------------------------|------------------------------------|
| | 2005 | 2004 |
| | (unaudited) | |
| Property revenues | \$ 8,072 | \$ 8,080 |
| Property expenses | 2,931 | 4,794 |
| Net operating income | 5,141 | 3,286 |
| Net income | 2,575 | 1,507 |
| | June 30, | December 31, |
| | 2005 | 2004 |
| | (unaudited) | |
| Total assets | \$ 113,920 | \$ 117,553 |
| Total third party debt | 67,400 | 67,400 |

Investments in Franchisees and Other Joint Ventures

The Carve-out Company has received equity interests in 17 franchisees in consideration for obtaining favorable financing terms for the franchisees. Additionally, the Carve-out Company has received equity interests in certain franchisees in exchange for capital contributions to these franchisees. The equity interests generally allow the Carve-out Company to share in 35% to 49% of the earnings of the franchisee's facility and its share of any gain if the facility is sold. These investments are recorded using the equity method of accounting.

During 2004, 2003 and 2002, respectively, the Carve-out Company invested approximately \$27, \$680, and \$460 in franchisees. There were no contributions to franchisees during the six months ended June 30, 2005 and 2004 (unaudited). The Carve-out Company had net investments in franchisees of \$2.9 million (unaudited), \$4.9 million and \$5.7 million as of June 30, 2005, December 31, 2004 and December 31, 2003, respectively. The Carve-out Company's interest in the net income for these facilities was \$851, \$591, and \$40 for the periods ended December 31, 2004, 2003 and 2002 respectively. The Carve-out Company's interest in the net income for franchise facilities was \$371 (unaudited) and \$418 (unaudited) for the six month periods ended June 30, 2005 and 2004, respectively.

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The Carve-out Company also has a 50% investment in a self-storage property in Arlington, Virginia (Clarendon Joint Venture). The Carve-out Company also manages this self-storage property. The Carve-out Company's investment in the Clarendon Joint Venture is accounted for on the equity method. As of December 31, 2004, the equity balance for the Clarendon Joint Venture was \$1.8 million. As of June 30, 2005, the balance was \$1.9 million (unaudited).

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(amounts in thousands)

The aggregate assets, liabilities and net income of these entities are summarized below:

| | Six months | | | | |
|----------------------|-----------------|--------|-----------------------------------|--------|----------|
| | ending June 30, | | For the years ending December 31, | | |
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| | (unaudited) | | | | |
| Aggregate net income | \$ 610 | \$ 778 | \$ 1,556 | \$ 609 | \$ 1,151 |

| | June 30, | December 31, | |
|-----------------------|-------------|--------------|-----------|
| | 2005 | 2004 | 2003 |
| | (unaudited) | | |
| Aggregate assets | \$ 56,002 | \$ 56,971 | \$ 57,470 |
| Aggregate liabilities | 36,594 | 36,635 | 36,492 |

The Carve-out Company periodically evaluates its investments in franchisees and its obligation to fund future operating losses. The Carve-out Company believes that there is no impairment related to these matters due to the sufficiency of the cash flows provided by the individual franchised facilities and the estimated fair value of these facilities.

5. Related Party Transactions

The Carve-out Company incurs certain costs on behalf of the franchisees and other joint venture partners, such as property insurance, for which the Carve-out Company is reimbursed. Additionally, the Carve-out Company charges management and franchise fees to franchisees and unconsolidated joint ventures (Note 2). Unpaid reimbursements, management fees, and franchise fees are included in amounts due from related parties on the combined balance sheets.

The Carve-out Company has a treasury management agreement with GE Capital so that available cash is transferred to GE Capital. These transfers are recorded as equity distributions for purposes of the carve-out financial statements. As the Carve-out Company incurs operational and investing costs, sufficient cash is transferred back by GE Capital to the Carve-out Company and are recorded as equity contributions for purposes of the Carve-out financial statements.

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(amounts in thousands)

6. Other Assets

Other assets consist of the following:

| | <u>June 30,</u> | <u>December 31,</u> | |
|--------------------------------|--------------------|---------------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (unaudited) | | |
| Deposits | \$ 556 | \$ 1,155 | \$ 306 |
| Accounts and other receivables | 2,136 | 2,434 | 2,150 |
| Inventory | 986 | 975 | 985 |
| Prepaid expenses | 1,021 | 1,484 | 1,530 |
| Other | 1,729 | 2,620 | 1,987 |
| | <u>\$ 6,428</u> | <u>\$ 8,668</u> | <u>\$ 6,958</u> |

7. Borrowings**(a) Notes Payable**

SUSA L.P. had issued various fixed rate senior unsecured notes (the "Notes") due on various dates. The notes bear interest at fixed rates between 6.95% and 8.20%. The Notes are redeemable at any time at the option of SUSA L.P. in whole or in part, at a redemption price equal to the sum of: (a) the principal amount of the Notes being redeemed plus accrued interest or (b) a "make-whole" amount as more fully defined in the Notes prospectus. The Notes are not subject to any mandatory sinking fund and are an unsecured obligation of SUSA L.P. The Notes contain various covenants restricting the amount of secured and unsecured indebtedness that SUSA L.P. may incur. GE Capital guaranteed the Notes in exchange for the debt holders relinquishing SUSA L.P. from financial reporting obligations and other restrictive covenants in the corresponding indentures.

The Notes were not assumed by Extra Space in the acquisition (Note 1). However, a portion of the Notes and the related interest expense has been allocated to the Carve-out Company, since notes were an obligation of the Partnership. The portion of the Notes and related interest expense that was allocated to the Carve-out Company was based on the fair value of the properties included in the Carve-out Company relative to the fair value of all the properties included in SUSA L.P., with these fair values determined as of the date of the acquisition of SUSA by GE Capital. This portion of the notes included in the Carve-out Company is included in the notes payable balance in the combined balance sheets. Management of the Carve-out Company believes that this allocation method is reasonable.

(b) Mortgage notes payable

At June 30, 2005, the Carve-out Company had two fixed rate mortgage loans payable totaling approximately \$5.2 million (unaudited). These loans bear a weighted average interest rate of 5.85%, and are secured by assets with an aggregate book value totaling approximately \$8.4 million. These notes mature in 2013.

As of December 31, 2004, the Carve-out Company had mortgage loans payable for \$9.2 million, which had an average interest rate of 7.8%, and were secured by assets with an aggregate book value of \$18 million. In February 2005, these notes were

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assumed by a limited partner of the Partnership in conjunction with that limited partner's redemption of 269,771 units in exchange for \$18 million of land which was subject to the \$9 million note payable (Note 13).

As of December 31, 2003, the Carve-out Company had 3 mortgage loans payable with a book value totaling approximately \$6.8 million. These notes had a weighted average interest rate of 3.0%, were secured by assets with book values of \$16.1 million, and matured in 2004.

(c) Other borrowings

As of December 31, 2003, there was \$2.2 million of other borrowings, which represented capital lease obligations. The Carve-out Company had no capital lease obligations as of December 31, 2004 or June 30, 2005 (unaudited). The Carve-out Company paid off all capital lease obligations during 2004.

The following is a debt maturity schedule as of December 31, 2004:

| | Notes | Mortgage | |
|------------|------------------|----------------------|------------------|
| | Payable | Notes payable | Total |
| 2005 | \$ | \$ 9,200 | \$ 9,200 |
| 2006 | 13,840 | | 13,840 |
| 2007 | 13,840 | | 13,840 |
| 2008 | | | |
| Thereafter | 41,522 | | 41,522 |
| | \$ 69,202 | \$ 9,200 | \$ 78,402 |

8. Equity

No direct relationship exists among all the operations comprising the Carve-out Company. Accordingly, total equity is presented in lieu of stockholders' equity. The total equity of Carve-out Company consists of the historic net assets of SUSA excluding those net assets acquired by Prudential as described in the Purchase and Sale Agreement with GE Capital.

9. Financial Instruments

The following disclosures of estimated fair value of financial instruments were determined by using available market information and appropriate valuation methodologies. The estimates are not necessarily indicative of the amounts the Carve-out Company could realize on disposition of the financial instruments.

Cash, other assets, accounts payable and accrued expenses, and other liabilities are carried at amounts which reasonably approximate their fair values. Advances to franchisees (collateralized by mortgages) are generally short-term at variable rates that are adjusted monthly and therefore are carried at amounts that approximate fair value. Notes payable and

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mortgage notes payable with aggregated carrying values of \$74.1 million (unaudited), \$78.4 million and \$76.6 million have an estimated aggregate fair value of \$92.8 million (unaudited), \$97.2 million and \$94.4 million as of June 30, 2005, December 31, 2004 and December 31, 2003, respectively.

10. Income Taxes

The components of the income tax provision (benefit) related to the taxable Franchise entity included in the Carve-out Company are as follows:

| | <u>Federal</u> | <u>State</u> | <u>Total</u> |
|--|-----------------|----------------|-----------------|
| Six months ended June 30, 2005 (unaudited): | | | |
| Current | \$ 205 | \$ 38 | \$ 243 |
| Deferred | 120 | 23 | 143 |
| | <u>\$ 325</u> | <u>\$ 61</u> | <u>\$ 386</u> |
| Year ended December 31, 2004 | | | |
| Current | \$ 657 | \$ 122 | \$ 779 |
| Deferred | 507 | 96 | 603 |
| | <u>\$ 1,164</u> | <u>\$ 218</u> | <u>\$ 1,382</u> |
| Year ended December 31, 2003 | | | |
| Current | \$ | \$ | \$ |
| Deferred | 441 | 83 | 524 |
| | <u>\$ 441</u> | <u>\$ 83</u> | <u>\$ 524</u> |
| Year ended December 31, 2002 | | | |
| Current | \$ | \$ | \$ |
| Deferred | (309) | (58) | (367) |
| | <u>\$ (309)</u> | <u>\$ (58)</u> | <u>\$ (367)</u> |

The income tax provision was different than the amount computed by applying the statutory Federal income tax rate to income before taxes due to the following:

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| | Six months ending June 30, | | For the years ending December 31, | | |
|--------------------------------|----------------------------|---------------|-----------------------------------|---------------|-----------------|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| | (unaudited) | | | | |
| Federal tax rate | 34% | 34% | 34% | 34% | 34% |
| Tax computed at statutory rate | \$ 346 | \$ 619 | \$ 1,238 | \$ 470 | \$ (329) |
| State income taxes, net | 40 | 72 | 144 | 54 | (38) |
| | <u>\$ 386</u> | <u>\$ 691</u> | <u>\$ 1,382</u> | <u>\$ 524</u> | <u>\$ (367)</u> |

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A deferred tax asset or liability is recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities as shown below:

| | Deferred assets | Deferred liabilities | Total |
|---|----------------------------|---------------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| June 30, 2005 (unaudited): | | | |
| Unrealized losses from franchisee investments | \$ 1,829 | \$ | \$ 1,829 |
| Net operating loss carryforwards | 96 | | 96 |
| Unrealized income from tenant insurance | | (2,741) | (2,741) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net deferred tax asset (liability) | \$ 1,925 | \$ (2,741) | \$ (816) |
| | <u> </u> | <u> </u> | <u> </u> |
| December 31, 2004 | | | |
| Unrealized losses from franchisee investments | \$ 1,753 | \$ | \$ 1,753 |
| Net operating loss carryforwards | 96 | | 96 |
| Unrealized income from tenant insurance | | (2,522) | (2,522) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net deferred tax asset (liability) | \$ 1,849 | \$ (2,522) | \$ (673) |
| | <u> </u> | <u> </u> | <u> </u> |
| December 31, 2003 | | | |
| Unrealized losses from franchisee investments | \$ 1,724 | \$ | \$ 1,724 |
| Net operating loss carryforwards | 256 | | 256 |
| Unrealized income from tenant insurance | | (2,050) | (2,050) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net deferred tax asset (liability) | \$ 1,980 | \$ (2,050) | \$ (70) |
| | <u> </u> | <u> </u> | <u> </u> |

11. Commitments and Contingencies

(a) Lease Agreements

The Carve-out Company has various lease agreements for office space and ground leases. Total future minimum rental payments and corresponding revenues from subtenant payments are as follows:

Payments Income Total

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| | | | |
|------------|------------------|-----------------|---------------|
| 2005 | \$ 4,422 | (1,542) | 2,880 |
| 2006 | 3,887 | (1,574) | 2,313 |
| 2007 | 3,899 | (1,607) | 2,292 |
| 2008 | 3,916 | (1,641) | 2,275 |
| 2009 | 3,899 | (1,641) | 2,258 |
| Thereafter | 22,294 | (9,073) | 13,221 |
| | <u>\$ 42,317</u> | <u>(17,078)</u> | <u>25,239</u> |

The Carve-out Company recorded \$2.3 million (unaudited) and \$2.3 million (unaudited) in rental expenses and \$0.8 million (unaudited) and \$0.8 million (unaudited) of sublease income under these operating leases during the six months ended June 30, 2005 and 2004, respectively. The Carve-out Company recorded \$4.6 million, \$3.9 million, and \$3.9 million in rental expense and \$1.5 million, \$1.5 million, and \$1.5 million of sublease income during the periods ended December 31, 2004, 2003 and 2002, respectively.

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At the time of GE Capital's acquisition of SUSA (Note 1), an unfavorable lease liability of \$5.1 million was recorded related to the lease of SUSA's headquarters office in Memphis, Tennessee. The Carve-out Company leases several floors of an office building under a non-cancelable operating lease agreement, which expires in 2015. This liability is being amortized over the period of the related lease.

(b) Construction Financing

The Carve-out Company has committed to advance an additional \$0.2 million in construction financing to franchisees under terms as described in Note 4. The Carve-out Company is also a limited guarantor on the financing of open and operating projects in which the Carve-out Company has either an equity interest or a purchase option on the storage facility. Under the terms of the guarantee, the Carve-out Company has the option of either purchasing the note without recourse or payment of the guarantee. At June 30, 2005 the Carve-out Company was guarantor on \$1.3 million (unaudited) of these financing arrangements, of which \$0.9 million (unaudited) was outstanding. The Carve-out Company was guarantor on \$1.3 million and \$3.2 million of these financing arrangements, of which \$0.9 and \$2.9 million was outstanding as of December 31, 2004 and 2003 respectively.

(c) Tenant Insurance

The Carve-out Company offers its customers tenant insurance, which insures their stored goods against described perils. The Carve-out Company's risk is limited to the amount of premiums collected through the program through an excess of loss reinsurance agreement.

Loss reserves of \$1.6 million (unaudited), \$1.3 million and \$0.9 million have been established as of June 30, 2005, December 31, 2004 and December 31, 2003, respectively. These amounts represent the estimated provisions for both reported and unreported claims incurred and related expenses and are included in accounts payable and accrued expenses on the combined balance sheets. The reserves are adjusted regularly based on experience. Since the reserves are based upon estimates, the ultimate liability may be more or less than such reserves. The effects of changes in such estimated reserves are included in the results of operations in the period in which estimates are revised.

During the six months ended June 30, 2005 and the years ended December 31, 2004, 2003 and 2002, no premiums were ceded through the reinsurance agreement noted above. During the six months ended June 30, 2005 and 2004, the Carve-out Company recognized \$1.8 million (unaudited) and \$1.7 million (unaudited) of income from the tenant insurance program. \$3.8 million, \$4.2 million, and \$3.8 million of income was recognized during the periods ended December 31, 2004, 2003 and 2002, respectively, relating to the tenant insurance program.

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(d) Legal Proceedings

Esquivel v. SUSA, L.P.

On June 17, 2002, a purported nationwide class action was filed in the Orange County, California Superior Court entitled Fausto Esquivel v. GE Capital Real Estate d/b/a Storage USA, case no. 02C00153, seeking injunctive relief, restitution and damages based upon alleged unfair and misleading advertising practices concerning the dimensions of storage units leased by SUSA, L.P. to its customers. Plaintiff alleges that the actual size of the storage units leased was less than the size of the units as advertised by SUSA, L.P. SUSA, L.P. settled this case in June 2005 (Note 13).

Mount Vernon, New York Facility

The Carve-out Company, through a wholly owned subsidiary entity SUSA Mt. Vernon LLC, is the current owner of a site located at 30 North West Street, Mount Vernon, New York, that is listed on the New York State Registry of Inactive Hazardous Waste Disposal Sites (Site No. 3-60-031). The prior owner and operator of the site, Insilco Corporation (Insilco), had committed to the New York State Department of Environmental Conservation (NYSDEC), pursuant to an Order on Consent dated March 31, 1997 (the Order), to conduct remedial activities to clean up hazardous substances associated with the property. In addition, in the purchase agreement between Insilco and SUSA Mt. Vernon LLC, Insilco agreed to perform all remedial work associated with the Order and indemnify SUSA, L.P. for any costs associated with the remedial work. In December 2003, Insilco filed for bankruptcy protection, and subsequently NYSDEC contacted SUSA, L.P. about assuming responsibility for the remedial work.

After negotiation with the State of New York, SUSA, L.P. and the State jointly pursued claims against Insilco in the Bankruptcy Court. However, the Bankruptcy Court ruled against SUSA L.P.'s request that the claims be given priority over other creditors' claims and confirmed Insilco's liquidation plan, pursuant to which there were no funds for general creditors. SUSA, L.P. will resume its negotiations with the State concerning its remedial obligations with respect to the property. Although SUSA, L.P. believes it has defenses to the State's claims against Insilco, SUSA, L.P. does have certain obligations as a landowner. SUSA, L.P. reserved \$2.3 million during 2003 for potential costs related to these obligations. During 2004, SUSA L.P. paid \$0.5 million of related expenses, reducing the reserve to \$1.8 million as of December 31, 2004. The reserve as of June 30, 2005 was \$1.8 million (unaudited).

12. Recent Accounting Developments

In June 2005, the Financial Accounting Standards Board ratified EITF 04-5 *Consolidating Limited Partnerships* (EITF 04-5). EITF 04-5 provides a framework for determining whether a general partner is required to consolidate limited partners. The new framework is significantly different than the guidance of AICPA Statement of Position 78-9 and would make it more difficult for a general partner to overcome the

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presumption that it controls the limited partnership, requiring the limited partner to have substantive kick-out or participating rights. Kick-out rights are the right to dissolve or liquidate the partnership or

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to otherwise remove the general partner without cause and participating rights are the right to effectively participate in significant decisions made in the ordinary course of the partnership's business. EITF 04-5 became effective immediately for all newly formed limited partnerships and existing limited partnerships which are modified. The guidance will become effective for existing limited partnerships which are not modified the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The application of this standard is not expected to have a material impact on the Carve-out Company's financial statements.

13. Subsequent Events (unaudited)

In January 2005, the Carve-out Company acquired a storage facility in Las Vegas, Nevada for \$4.8 million. In May 2005, the Carve-out Company acquired a self-storage facility in Louisville, Kentucky for \$4.5 million. Additionally, the Carve-out Company acquired a storage facility in Stone Mountain, Georgia from a franchisee for a purchase price of \$3.7 million in February 2005.

In February 2005, a limited partner of the Partnership redeemed 269,771 units in exchange for land which was subject to a \$9 million note payable. The land had a carrying value of \$18 million, which approximated its fair value.

In January and February 2005, SUSA entered into retention agreements with key personnel in connection with the possibility of a potential sale of the Company and its assets. The total maximum amount that will be paid under these agreements is \$3.2 million.

In June 2005, the Fausto Esquivel v. GE Capital Real Estate d/b/a Storage USA (case no. 02C00153) was settled for \$0.2 million.