

Public Storage
Form S-3ASR
June 25, 2007
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 25, 2007

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form S-3

Registration Statement

Under

The Securities Act of 1933

Public Storage

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or Other Jurisdiction

of Incorporation or Organization)

95-3551121
(I.R.S. Employer

Identification No.)

701 Western Avenue

Glendale, California 91201-2397

(818) 244-8080

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Ronald L. Havner, Jr.

President & Chief Executive Officer

Public Storage

701 Western Avenue

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Glendale, California 91201-2397

(818) 244-8080

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ☒

If this Form is a post-effective amendment to a registration statement pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ☐

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered | Proposed Maximum Offering Price Per Unit | Proposed Maximum Offering Price | Amount of Registration Fee |
|---|-------------------------------|---|---------------------------------------|----------------------------------|
| Common Shares of Beneficial Interest, \$.10 par value per share | | | | |
| Preferred Shares of Beneficial Interest, \$.01 par value per share | | | | |
| Equity Shares of Beneficial Interest, \$.01 par value per share | | | | |
| Depositary Shares Representing Interests in Preferred Shares or Equity Shares (2) | (1) | (1) | (1) | (1) |
| Warrants | | | | |
| Debt Securities | | | | |
| Units (3) | | | | |

- (1) An indeterminate aggregate initial offering price or number of the securities of each identified class is being registered as may from time to time be offered at indeterminate prices. Separate consideration may or may not be received for securities that are issuable on exercise, conversion or exchange of other securities or that are represented by depositary shares. In accordance with Rules 456(b) and 457(r), the Registrant is paying a registration fee of \$15,350 at this time to register \$500,000,000 of securities and deferring payment of any other registration fees. The registration fee amount paid includes \$1,070 that has already been paid with respect to \$10,000,000 of securities that were previously registered by the Registrant's predecessor, Public Storage, Inc., on Registration Statement No. 333-136139, and were not sold thereunder. Accordingly, the Registrant is paying \$14,280 concurrently in connection with the

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filing of this Registration Statement.

- (2) Each depositary share will be issued under a deposit agreement, will represent a specified interest in a preferred share or equity share and will be evidenced by a depositary receipt.
 - (3) Each unit will be issued under a unit agreement or indenture and will represent an interest in two or more debt securities, or warrants, which may or may not be separable from one another.
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Prospectus

Public Storage

By this prospectus, we may offer

Common Shares of Beneficial Interest

Preferred Shares of Beneficial Interest

Equity Shares of Beneficial Interest

Depository Shares

Warrants

Debt Securities

We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a delayed or continuous basis.

We will provide the specific terms of any offered securities in supplements to this prospectus and other filings with the Securities and Exchange Commission. You should read this prospectus and the supplements carefully before you invest.

Our common shares of beneficial interest are listed and traded on the New York Stock Exchange and the Pacific Exchange under the symbol PSA.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued under this prospectus or determined if this prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

June 25, 2007

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You should rely only on the information contained in or incorporated by reference in this prospectus and any accompanying prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any state where the offer is not permitted. The information contained in or incorporated by reference in this prospectus is accurate only as of the date on the front of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, we may sell from time to time an unlimited amount of our common shares of beneficial interest, preferred shares of beneficial interest, equity shares of beneficial interest, depositary shares, warrants and debt securities, in any combination. This prospectus provides a general description of the securities that we may offer. Each time we offer any of the types of securities described in this prospectus, we will prepare and distribute a prospectus supplement that will contain a description of the specific terms of the securities being offered and of the offering. The prospectus supplement also may also supplement the information contained in this prospectus. You should read both this prospectus and the applicable prospectus supplement, together with the additional information described under the heading **Where You Can Find More Information**, before purchasing any securities.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to the Company, we, us, our and similar references mean Public Storage and its subsidiaries.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the reporting requirements of the Securities Exchange Act of 1934, and are required to file annual, quarterly and special reports with the Securities and Exchange Commission (the SEC). You may read and copy any of these documents at the SEC public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549. You may telephone the SEC at 1-800-SEC-0330 for further information on SEC public reference facilities. The SEC also maintains a website at <http://www.sec.gov> that contains the reports, proxy and information statements and other information that we and other registrants file electronically with the SEC. You also can inspect reports and other information we file at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, and the Pacific Exchange, 301 Pine Street, San Francisco, California 94104.

This prospectus is a part of a registration statement on Form S-3 filed with the SEC to register offers and sales of the securities described in this prospectus under the Securities Act of 1933, as amended. The registration statement contains additional information about us and the securities. You may obtain the registration statement and its exhibits from the SEC as indicated above or from us.

The SEC allows us to provide information about our business and other important information to you by incorporating by reference the information we file with the SEC, which means that we can disclose that information to you by referring in this prospectus to the documents we file with the SEC. Under SEC regulations, any statement contained in a document incorporated by reference in this prospectus is automatically updated and superseded by any information contained in this prospectus, or in any subsequently filed document of the types described below.

We incorporate into this prospectus by reference the following documents filed with the SEC by us or our predecessor registrant, Public Storage, Inc., each of which should be considered an important part of this prospectus:

SEC Filing

Annual Report on Form 10-K

Quarterly Report on Form 10-Q

Period Covered or Date of Filing

Year ended December 31, 2006 (filed by Public Storage, Inc. on March 1, 2007, amended on March 12, 2007)

Period ended March 31, 2007 (filed by Public Storage, Inc. on May 10, 2007)

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SEC Filing

Current Reports on Form 8-K

Period Covered or Date of Filing

Filed by Public Storage, Inc. on January 5, 2007; February 28, 2007; March 16, 2007; April 2, 2007; May 2, 2007; and May 4, 2007; and filed by Public Storage on June 4, 2007 (and as amended on June 6, 2007) and June 6, 2007.

Description of our common, preferred and equity shares of beneficial interest contained in our Current Report on Form 8-K, as supplemented by the description contained in this prospectus

Filed by Public Storage on June 6, 2007

All subsequent documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934 (other than those furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K or other information furnished to the SEC)

After the date of this prospectus and before the termination of the offering

You may request a copy of each of our filings at no cost, by writing or telephoning us at the following address, telephone or facsimile number:

Investor Services Department

Public Storage

701 Western Avenue

Glendale, California 91201-2397

Telephone: (800) 421-2856

(818) 244-8080

Facsimile: (818) 241-0627

Exhibits to a document will not be provided unless they are specifically incorporated by reference in that document.

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FORWARD-LOOKING STATEMENTS

This prospectus includes or incorporates by reference forward-looking statements, including those identified by the words expects, believes, anticipates, should, estimates, may, will, seeks, intends, plans, pro forma, or the negative of these words and phrases or similar expressions, which convey the uncertainty of future events or outcomes. Discussions of strategy, plans or intentions also include forward-looking statements. Forward-looking statements are subject to risks and uncertainties which may cause our actual results to differ significantly from those expressed or implied in the forward-looking statements. Factors that may impact future results and performance are described in Public Storage, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2007. These risks include the following:

risks related to the merger with Shurgard, including difficulties that may be encountered in integrating Public Storage and Shurgard, loss of personnel as a result of the merger, the impact of the merger on occupancy and rental rates, the inability to realize or delays in realizing expected results from the merger, unanticipated operating costs resulting from the merger and risks associated with international operations;

changes in the general economic conditions and in the markets in which Public Storage operates;

the impact of competition from new and existing self-storage and commercial facilities which could impact rents and occupancy levels at our facilities;

our ability to evaluate, finance and integrate acquired and developed properties into our existing operations and to fill up those properties, which could adversely affect our profitability;

the impact of the regulatory environment as well as national, state and local laws and regulations, including, without limitation, those governing real estate investment trusts; which could increase our expenses and reduce cash available for distribution;

consumers' failure to accept the containerized storage concept;

difficulties in raising capital at reasonable rates, which would impede our ability to grow;

delays in the development process; and

economic uncertainty due to the impact of war or terrorism.

These factors, as well as changes in the real estate markets and the general economy, could cause future events and actual results to differ materially from those set forth or contemplated in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus or in the incorporated documents might not occur and actual results could be substantially different than expected.

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THE COMPANY

We are a fully integrated, self-administered and self-managed real estate investment trust, or REIT, that primarily acquires, develops, owns and operates storage facilities. Our storage properties are located in 38 states and seven Western European nations. As of March 31, 2007, we had interests in 2,005 storage facilities with approximately 126 million net rentable square feet in the United States and 168 storage facilities with approximately 9 million net rentable square feet in Europe.

We elected to be taxed as a REIT beginning with our 1981 taxable year. So long as we continue to qualify as a REIT, we will not be taxed, with certain limited exceptions, on the net income that we distribute currently to our shareholders. We were incorporated in California in 1980 and reorganized as a Maryland real estate investment trust in June 2007. Our principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2349. Our telephone number is (818) 244-8080.

USE OF PROCEEDS

Unless otherwise described in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities described in this prospectus to make investments in self-storage facilities, including development, interests in partnerships and other entities and mortgage loans and for general corporate purposes, including repayment of debt and the redemption of outstanding securities. Pending application, we may invest the net proceeds in short-term, interest bearing securities.

RATIO OF EARNINGS TO FIXED CHARGES

We compute our ratio of earnings to combined fixed charges and preferred distributions by dividing our earnings by the sum of our fixed charges and preferred shares and preferred unit distributions, including the impact of EITF Topic D-42 described below. We compute our ratio of earnings to fixed charges by dividing our earnings by our fixed charges. Earnings consists of net income before interest expense and minority interests that have fixed charges, and excludes discontinued operations for all periods presented.

| | Three Months Ended March 31, | | | Year Ended December 31, | | | |
|--|------------------------------------|--------|--------|-------------------------|--------|--------|--------|
| | 2007 | 2006 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Ratio of earnings to combined fixed charges and preferred distributions, including the impact of EITF Topic D-42 (a) | 0.96x | 2.32x | 1.22x | 2.27x | 1.96x | 1.90x | 1.83x |
| Ratio of earnings to fixed charges | 4.48x | 53.51x | 10.26x | 42.91x | 91.03x | 49.95x | 34.15x |

- (a) Emerging Issues Task Force (EITF) Topic D-42, The Effect on the Calculation of Earnings per Share for the Redemption or the Induced Conversion of Preferred Stock provides, among other things, that any excess of (1) the fair value of the consideration transferred to the holders of preferred stock redeemed over (2) the carrying amount of the preferred stock should be subtracted from net earnings to determine net earnings available to common shareholders in the calculation of earnings per share. At the July 31, 2003 meeting of the EITF, the Securities and Exchange Commission Observer clarified that for purposes of applying EITF Topic D-42, the carrying amount of the preferred stock should be reduced by the issuance costs of the preferred stock, regardless of where in the stockholders' equity section those costs were initially classified on issuance. This ratio reflects the SEC Observer's clarification.

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DESCRIPTION OF COMMON SHARES

We are authorized to issue up to 650,000,000 common shares of beneficial interest, par value \$0.10 per share. At June 20, 2007, we had outstanding 170,506,805 common shares (excluding common shares issuable upon conversion of convertible shares of beneficial interest and common shares subject to options).

The following description of our common shares sets forth certain general terms and provisions of our common shares to which any prospectus supplement may relate, including a prospectus supplement providing that common shares will be issuable upon conversion of preferred shares of beneficial interest or equity shares of beneficial interest or upon the exercise of warrants. The statements below describing our common shares are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our declaration of trust and bylaws.

Holders of our common shares will be entitled to receive distributions when, as and if declared by our board of trustees, out of funds legally available for distribution. If we fail to pay distributions on our outstanding preferred shares of beneficial interest, generally we may not pay distributions on or repurchase our common shares. If we were to liquidate, dissolve or wind up our affairs, holders of common shares will be entitled to share equally and ratably in any assets available for distribution to them, after payment or provision for payment of our debts and other liabilities and the preferential amounts owing with respect to any of our outstanding preferred shares. Holders of common shares have no preemptive rights, which means they have no right to acquire any additional common shares that we may issue at a later date. See Description of Preferred Shares.

The holders of our common shares are entitled to cast one vote for each share on all matters presented to our holders for a vote. Our declaration of trust permits cumulative voting for the election of trustees. Cumulative voting means that each holder of our common shares is entitled to cast as many votes as there are trustees to be elected multiplied by the number of common shares registered in his or her name. A holder of our common shares may cumulate the votes for trustees by casting all of the votes for one candidate or by distributing the votes among as many candidates as he or she chooses. The common shares will be, when issued, fully paid and nonassessable.

The rights, preferences and privileges of holders of our common shares are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred shares or equity shares of beneficial interest which are outstanding or which we may designate and issue in the future. See Description of Preferred Shares and Description of Equity Shares.

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DESCRIPTION OF PREFERRED SHARES

We are authorized to issue up to 100,000,000 preferred shares of beneficial interest, par value \$0.01 per share. At June 20, 2007, we had outstanding 1,732,600 preferred shares and had reserved for issuance an additional 13,000 preferred shares. The Declaration of Trust provides that preferred shares may be issued from time to time in one or more series and gives our board of trustees broad authority to fix the distribution and distribution rights, conversion and voting rights, if any, redemption provisions and liquidation preferences of each series of Preferred Shares. Holders of preferred shares have no preemptive rights. The preferred shares will be, when issued, fully paid and nonassessable.

Although the issuance of preferred shares with special voting rights could be used to deter attempts to obtain control of us in transactions not approved by our board of trustees, we have no present intention to issue shares for that purpose.

Outstanding Preferred Shares

At June 20, 2007, we had outstanding 17 series of preferred shares and had reserved for issuance, upon conversion of preferred units in one of our operating partnerships, two additional series. Each series (1) has a stated value of \$25.00 per share or depositary share as applicable, (2) provides for cumulative quarterly distributions calculated as a percentage of the stated value (ranging from 6.125% to 7.500% per year) in preference to the holders of common shares and any other equity shares ranking junior to such preferred shares as to payment of distributions, and (3) is subject to redemption after a specified date, in whole or in part, at our option at a cash redemption price of \$25.00 per share or depositary share as applicable, plus accrued and unpaid distributions.

If we voluntarily or involuntarily liquidate, dissolve or wind up, the holders of our outstanding preferred shares will be entitled to receive out of our assets available for distribution to shareholders, before any assets are distributed to holders of our common shares or any other shares of beneficial interest ranking junior to our outstanding preferred shares, liquidating distributions equal to \$25 per share or depositary share, plus all accrued and unpaid distributions.

Except as expressly required by law and in certain other limited circumstances, holders of our outstanding preferred shares are not entitled to vote. Our board of trustees will not, without the consent of holders of at least 66 ²/₃% of the outstanding preferred shares, voting as a single class, authorize another class of shares senior to our preferred shares.

Future Series of Preferred Shares

Below is a description of some general terms and provisions of our preferred shares which may be specified in a prospectus supplement. The statements below describing our preferred shares are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our declaration of trust (including the applicable form of articles supplementary) and bylaws.

You should read the prospectus supplement relating to our preferred shares being offered for specific terms, including:

- (1) the title and stated value of our preferred shares;
- (2) the number of preferred shares being offered, the liquidation preference per share and the offering price of our preferred shares;
- (3) the distribution rate, period and payment date or method of calculation applicable to our preferred shares;

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- (4) the date from which distributions on our preferred shares accumulates, if applicable;
- (5) the provision for a sinking fund, if any, for our preferred shares;
- (6) the provision for redemption, if applicable, of our preferred shares;
- (7) any listing of our preferred shares on any securities exchange;
- (8) the terms and conditions, if applicable, upon which our preferred shares will be convertible into common shares, including the conversion price (or manner of calculation);
- (9) the voting rights, if any, of our preferred shares;
- (10) any other specific terms, preferences, rights, limitations or restrictions of our preferred shares;
- (11) the relative ranking and preferences of our preferred shares as to distribution rights and rights upon liquidation, dissolution or winding up of our affairs; and
- (12) any limitations on issuance of any series of preferred shares ranking senior to or on a parity with the series of preferred shares as to distribution rights and rights upon liquidation, dissolution or winding up of our affairs.

Ranking. The ranking of our preferred shares will be set forth in the applicable prospectus supplement. Unless otherwise specified in the applicable prospectus supplement, our preferred shares will, with respect to distribution rights and rights upon liquidation, dissolution or winding up of our affairs, rank:

- (1) senior to the common shares, any additional class of common shares, existing and future equity shares and any future series of preferred shares ranking junior to our preferred shares;
- (2) on a parity with all preferred shares previously issued by us the terms of which specifically provide that the preferred shares rank on a parity with the preferred shares being offered; and
- (3) junior to all preferred shares previously issued by us the terms of which specifically provide that the preferred shares rank senior to the preferred shares being offered.

Distributions. Holders of preferred shares of a particular series are entitled to receive, when, as and if declared by our board of trustees, out of our assets legally available for payment, cash distributions at the respective rates and on the respective dates as set forth in the articles supplementary relating to such series. Each distribution will be payable to holders of record as they appear on our share transfer books on the record dates fixed by our board of trustees.

Distributions on any series of the preferred shares being offered may be cumulative or non-cumulative, as provided in the applicable prospectus supplement. Distributions, if cumulative, will be cumulative from and after the date set forth in the applicable prospectus supplement. Any distribution made on shares of a series of cumulative preferred shares will first be credited against the earliest accrued but unpaid distribution due with respect to shares of the series which remains payable. If our board of trustees fails to declare a distribution on a distribution payment date on any series of the preferred shares for which distributions are non-cumulative, the holders of the series of the preferred shares will have no right to receive a distribution in respect of the distribution period ending on that distribution payment date, and we will have no obligation to pay the distribution accrued for the period, whether or not distributions on that series are declared payable on any future distribution payment date.

No distributions (other than in common shares or other equity shares ranking junior to the preferred shares of any series as to distributions and upon liquidation) will be declared or paid or set aside for payment (nor will any other distribution be declared or made upon our common shares, or any of our other equity shares ranking junior to or on a parity with the preferred shares of the series as to distributions or upon liquidation), nor will any common shares or any other of our equity shares ranking junior to or on a parity with the preferred shares of the series as to distributions or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any shares) by us (except

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by conversion into or exchange for our other equity shares ranking junior to the preferred shares of the series as to distributions and upon liquidation) unless:

(1) if the series of preferred shares has a cumulative distribution, full cumulative distributions on the preferred shares of the series have been or contemporaneously are declared and paid or declared and a sum set apart for payment for all past distribution periods and the then current distribution period; and

(2) if the series of preferred shares does not have a cumulative distribution, full distributions on the preferred shares of the series have been or contemporaneously are declared and paid or declared and a sum set apart for payment for the then current distribution period.

Any distribution payment made on shares of a series of cumulative preferred shares being offered will first be credited against the earliest accrued but unpaid distribution due with respect to shares of the series which remains payable.

Redemption. The preferred shares will be subject to mandatory redemption or redemption at our option, in whole or in part, in each case to the extent set forth in the prospectus supplement relating to the series. The preferred shares also will be subject to redemption at our option, in whole or in part, if the board of trustees determines in good faith that such redemption is necessary to maintain our status as a REIT for tax purposes.

The prospectus supplement relating to a series of preferred shares being offered that is subject to mandatory redemption will specify the number of shares of that series that will be redeemed by us in each year commencing after a date to be specified, at a redemption price per share to be specified, together with an amount equal to all accrued and unpaid distributions thereon (which will not, if shares of that series do not have a cumulative distribution, include any accumulation in respect of unpaid distributions for prior distribution periods) to the date of redemption. The redemption price may be payable in cash, securities or other property, as specified in the applicable prospectus supplement.

Notwithstanding the foregoing, no preferred shares of any series being offered will be redeemed and we will not purchase or otherwise acquire directly or indirectly any preferred shares of that series (except by conversion into or exchange for equity shares of us ranking junior to the preferred shares of that series as to distributions and upon liquidation) unless all outstanding preferred shares of that series are simultaneously redeemed unless, in each case:

(1) if that series of preferred shares has a cumulative distribution, full cumulative distributions on the preferred shares of that series will have been or contemporaneously are declared and paid or declared and a sum sufficient for payment for all past distribution periods and the then current distribution period is set apart; and

(2) if that series of preferred shares does not have a cumulative distribution, full distributions on the preferred shares of that series have been or contemporaneously are declared and paid or declared and a sum sufficient for payment for the then current distribution period is set apart; provided, however, that we may acquire preferred shares of the series under a purchase or exchange offer made on the same terms to holders of all outstanding preferred shares of the series.

If fewer than all of the outstanding preferred shares of any series being offered are to be redeemed, the number of shares to be redeemed will be determined by us and these shares may be redeemed pro rata from the holders of record of these shares in proportion to the number of these shares held by such holders (with adjustments to avoid redemption of fractional shares) or any other equitable method determined by us.

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Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of record of preferred shares of any series to be redeemed at the address shown on our share transfer books. Each notice will state:

- (1) the redemption date;
- (2) the number of shares and series of our preferred shares to be redeemed;
- (3) the redemption price;
- (4) the place or places where certificates for such preferred shares are to be surrendered for payment of the redemption price; and
- (5) that distributions on our preferred shares to be redeemed will cease to accrue on the redemption date.

If fewer than all our preferred shares of any series are to be redeemed, the notice mailed to each holder will also specify the number of preferred shares to be redeemed from the holder and, upon redemption, a new certificate will be issued representing the unredeemed shares without cost to the holder. To facilitate the redemption of preferred shares, our board of trustees may fix a record date for the determination of preferred shares to be redeemed. The record date may not be less than 30 or more than 60 days before the date fixed for redemption.

If notice has been given as provided above, unless we default in providing funds for the payment of the redemption price on that date, then from and after the redemption date all distributions on our preferred shares called for redemption will cease. From and after the redemption date, unless we default, all rights of the holders of our preferred shares of such series, except the right to receive the redemption price (but without interest), will cease.

Subject to applicable law and the limitation on purchases when distributions on preferred shares are in arrears, we may, at any time and from time to time, purchase any preferred shares in the open market, by tender or by private agreement.

Liquidation Preference. If we voluntarily or involuntarily liquidate, dissolve or wind-up our affairs, then, before we make any distribution or payment to the holders of any common shares or any other class or series of shares of beneficial interest ranking junior to our preferred shares in the distribution of assets upon our liquidation, dissolution or winding up, the holders of each series of preferred shares will be entitled to receive out of our assets legally available for distribution to shareholders liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable articles supplementary relating to such series), plus an amount equal to all accrued and unpaid distributions. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of preferred shares will have no right or claim to any of our remaining assets. In the event that, upon the voluntary or involuntary liquidation, dissolution or winding up, our legally available assets are insufficient to pay the amount of the liquidating distributions on all outstanding preferred shares of any series and the corresponding amounts payable on all shares of other classes or series of shares of beneficial interest ranking on a parity with our preferred shares in the distribution of assets upon liquidation, dissolution or winding up, then the holders of our preferred shares and all other such classes or series of shares of beneficial interest will share ratably in any distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions have been made in full to all holders of preferred shares, our remaining assets will be distributed among the holders of any other classes or series of shares of beneficial interest ranking junior to our preferred shares upon liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares. For these purposes, our consolidation or merger with or into any other corporation, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up.

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Voting Rights. Holders of our preferred shares have no voting rights, except as set forth below or as otherwise expressly required by law or as indicated in the applicable articles supplementary.

If six quarterly distributions payable on any series of preferred shares are in default (whether or not declared or consecutive), the holders of all the series of preferred shares, voting as a single class with all other series of preferred shares upon which similar voting rights have been conferred and are exercisable, will be entitled to elect two additional trustees until all distributions in default have been paid or declared and set apart for payment.

The right to vote separately to elect trustees will, when vested, be subject, always, to the same provisions for vesting of the right to elect trustees separately in the case of future distribution defaults. At any time when the right to elect trustees separately has vested, we may, and upon the written request of the holders of record of not less than 20% of our total number of preferred shares then outstanding will, call a special meeting of shareholders for the election of trustees. In the case of the written request, a special meeting will be held within 90 days after the delivery of the request and, in either case, at the place and upon the notice provided by law and in the bylaws. However, we will not be required to call a special meeting if the request is received less than 120 days before the date fixed for the next annual meeting of shareholders, and the holders of all classes of outstanding preferred shares are offered the opportunity to elect the trustees (or fill any vacancy) at the annual meeting of shareholders. Trustees so elected will serve until the next annual meeting of shareholders or until their respective successors are elected and qualify. If, before the end of the term of any trustee so elected, a vacancy in the office of the trustee occurs, during the continuance of a default by reason of death, resignation, or disability, the vacancy will be filled for the unexpired term of the former trustee by the appointment of a new trustee by the remaining trustee or trustees so elected.

The affirmative vote or consent of the holders of at least 66^{2/3}% of the outstanding preferred shares of each series will be required to amend or repeal any provision of, or add any provision to, our Declaration of Trust, including the articles supplementary, if this action would adversely alter or change the rights, preferences or privileges of the series of preferred shares.

Our board of trustees will not, without the consent of holders of at least 66^{2/3}% of the outstanding preferred shares, voting as a single class, authorize another class of shares of beneficial interest senior to our preferred shares. No consent or approval of the holders of any series of preferred shares will be required for the issuance from authorized but unissued preferred shares of other preferred shares of any series ranking on a parity with or junior to our preferred shares in question, or senior to a series of preferred shares expressly made junior to that series of preferred shares as to payment of distributions and distribution of assets, including other preferred shares of the same series.

These voting provisions will not apply if, at or prior to the time when the act with respect to which a vote would otherwise be required is effected, all outstanding preferred shares of the series had been redeemed or called for redemption upon proper notice and sufficient funds had been deposited in trust to effect the redemption.

Conversion Rights. The terms and conditions, if any, upon which shares of any series of preferred shares being offered are convertible into common shares will be set forth in the applicable prospectus supplement. The terms will include the number of common shares into which the preferred shares are convertible, the conversion price (or manner of calculation), the conversion period, provisions as to whether conversion will be at our option or at the option of the holders of the preferred shares or automatically upon the occurrence of certain events, the events requiring an adjustment of the conversion price and provisions affecting conversion if we redeem the preferred shares.

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DESCRIPTION OF EQUITY SHARES

We are authorized to issue up to 100,000,000 equity shares of beneficial interest, par value \$.01 per share. At June 20, 2007, we had outstanding 4,298,284.766 equity shares (of which 8,740.766 are represented by 8,740,766 depositary shares) which rank on a parity with our common shares. Our declaration of trust provides that the equity shares may be issued from time to time in one or more series and gives the board of trustees broad authority to fix the distribution, conversion and voting rights, redemption provisions and liquidation rights of each series of equity shares. Holders of equity shares have no preemptive rights. The equity shares will be, when issued, fully paid and nonassessable.

The issuance of equity shares with special voting rights could be used to deter attempts by a single shareholder or group of shareholders to obtain control of us in transactions not approved by our board of trustees. We have no intention to issue equity shares for these purposes.

Outstanding Series of Equity Shares

At June 20, 2007, we have outstanding two series of equity shares, consisting of 8,740.766 equity shares, series A, and 4,289,544 equity shares, series AAA, each of which rank on a parity with our common shares. The equity shares, series A are represented by 8,740,766 depositary shares (each depositary share representing 1/1000 of an equity share, series A). Our equity shares, series A (1) provide for cash distributions at the rate of five times the distributions on the common share per depositary share, but not more than \$2.45 per depositary share per year, (2) may be redeemed on or after March 31, 2010 at \$24.50 per depositary share, (3) on liquidation receives the same per share amount allocated in respect of a common share, but not to exceed \$24.50 per depositary share, (4) are convertible into common shares at the rate of one depositary share into .956 common shares if we fail to preserve our status as a REIT and (5) vote as a single class with the common shares at the rate of one-tenth of a vote per depositary share.

Our equity shares, series AAA (1) provide for cash distributions at the rate of five times the distributions on the common shares, provided that such distributions shall be neither more than \$.539101563 per share per quarter nor less than the lesser of \$.215640625 per share per year or five times the dividends per common share per year, (2) are not redeemable except in certain limited circumstances (including if we determine a redemption is necessary to maintain our status as a REIT), (3) receive on our liquidation, dissolution or winding up 120% of the amount distributed per common share, (4) are not convertible into common shares except in certain limited circumstances and (5) have no voting rights.

Future Series of Equity Shares

Below is a description of some general terms and provisions of our equity shares which may be specified in a prospectus supplement. The statements below describing the equity shares are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our declaration of trust (including the applicable form of articles supplementary) and bylaws.

You should read the prospectus supplement relating to the equity shares being offered for specific terms, including:

- (1) the designation of that equity shares;
- (2) the number of shares of that equity shares offered, the liquidation rights and the offering price of that equity shares;
- (3) the distribution rate, period and payment date or method of calculation applicable to that equity shares;
- (4) the provision for redemption, if applicable, of that equity shares;

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- (5) any listing of that equity shares on any securities exchange;
- (6) the terms and conditions, if applicable, upon which that equity shares will be convertible into common shares, including the conversion price (or manner of calculation);
- (7) the voting rights, if any, of such equity shares;
- (8) any other specific terms, rights, limitations or restrictions of such equity shares; and
- (9) the relative ranking of that equity shares as to distribution rights and rights if we liquidate, dissolve or wind-up our affairs.

Ranking. Unless otherwise specified in the applicable prospectus supplement, equity shares will, with respect to distribution rights and rights upon liquidation, dissolution or winding up of our affairs, rank on a parity with the common shares.

Distributions. Holders of equity shares of each series being offered will be entitled to receive, when, as and if declared by our board of trustees, out of our assets legally available for payment, cash distributions at the rates and on the dates set forth in the applicable prospectus supplement. Each distribution will be payable to holders of record as they appear on our share transfer books on the record dates fixed by our board of trustees. Unless otherwise specified in the applicable prospectus supplement, distributions on equity shares will be non-cumulative.

Redemption. The equity shares will be subject to mandatory redemption or redemption at our option, in whole or in part, in each case to the extent set forth in the applicable prospectus supplement.

The prospectus supplement relating to a series of equity shares being offered that is subject to mandatory redemption will specify the number of shares of that series that we must redeem in each year commencing after a date to be specified, at a redemption price per share to be specified, together with an amount equal to all accrued and unpaid distributions (which will not, if that series does not have a cumulative distribution, include any accumulation in respect of unpaid distributions for prior distribution periods) to the date of redemption. The redemption price may be payable in cash, securities or other property, as specified in the applicable prospectus supplement.

If fewer than all of the outstanding equity shares of any series offered are to be redeemed, the number of shares to be redeemed will be determined by us and those shares may be redeemed pro rata from the holders of record of those shares in proportion to the number of those shares held by such holders (with adjustments to avoid redemption of fractional shares) or any other equitable method determined by us.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of record of equity shares of any series to be redeemed at the address shown on our share transfer books. Each notice will state:

- (1) the redemption date;
- (2) the number of shares and series of the equity shares to be redeemed;
- (3) the redemption price;
- (4) the place or places where certificates for shares of that series are to be surrendered for payment of the redemption price;
- (5) that distributions on the shares to be redeemed will cease to accrue on the redemption date; and
- (6) the date upon which the holder's conversion rights, if any, as to those shares terminates.

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If fewer than all the shares of equity shares of any series are to be redeemed, the notice mailed to each holder will also specify the number of shares of equity shares to be redeemed from the holder and, upon redemption, a new certificate will be issued representing the unredeemed shares without cost to the holder. To facilitate the redemption of shares of equity shares, our board of trustees may fix a record date for the determination of equity shares to be redeemed. The record date may not be less than 30 or more than 60 days before the date fixed for redemption.

If notice has been given as provided above, unless we default in providing funds for the payment of the redemption price on that date, then from and after the redemption date all distributions on the equity shares called for redemption will cease. From and after the redemption date, unless we default, all rights of the holders of our equity shares, except the right to receive the redemption price (but without interest), will cease.

Liquidation Rights. If we voluntarily or involuntarily liquidate, dissolve or wind-up our affairs, then, before we make any distribution or payment to the holders of the equity shares or any other class or series of our equity shares ranking junior to any series of preferred shares in the distribution of assets upon our liquidation, dissolution or winding up, the holders of each series of preferred shares will be entitled to receive out of our assets legally available for distribution to shareholders liquidating distributions in the amount of the liquidation preference per share, plus an amount equal to all accrued and unpaid distributions (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if the preferred shares does not have a cumulative distribution). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of preferred shares will have no right or claim to any of our remaining assets.

If liquidating distributions have been made in full to all holders of preferred shares, our remaining assets will be distributed among the holders of any other classes or series of equity shares ranking junior to the preferred shares upon liquidation, dissolution or winding up, including the equity shares, according to their respective rights and in each case according to their respective number of shares. For these purposes, our consolidation or merger with or into any other corporation, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up.

Unless otherwise specified in the applicable prospectus supplement, if we voluntarily or involuntarily liquidate, dissolve or wind up our affairs, holders of the equity shares will rank on a parity with the holders of the common shares, subject to any maximum or minimum distribution to holders of equity shares specified in the applicable prospectus supplement.

Voting Rights. Unless otherwise specified in the applicable prospectus supplement, holders of the equity shares will vote with holders of the common shares.

No consent or approval of the holders of any series of equity shares will be required for the issuance from our authorized but unissued equity shares of other shares of any series of equity shares including shares of the same series of equity shares.

Conversion Rights. The terms and conditions, if any, upon which shares of any series of equity shares being offered are convertible into common shares will be set forth in the applicable prospectus supplement. The terms will include the number of common shares into which the equity shares are convertible, the conversion price (or manner of calculation), the conversion period, provisions as to whether conversion will be at our option or at the option of the holders of the equity shares or automatically upon the occurrence of certain events, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of the series of equity shares.

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OWNERSHIP LIMITATIONS

To qualify as a REIT under the Internal Revenue Code of 1986, as amended (the Code), our shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of our outstanding shares (after taking into account options to acquire shares) may be owned, directly, indirectly or through attribution, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year.

To maintain our qualification as a REIT, our declaration of trust provides that:

no person, other than an excepted holder or a designated investment entity (each as defined in our declaration of trust and as described below), may own directly or indirectly, or be deemed to own by virtue of the attribution provisions of the Code, more than 3%, in value or number of common shares, whichever is more restrictive, of the outstanding shares of any class or series of common shares;

no person, other than a designated investment entity or an excepted holder (each as defined in our declaration of trust and as described below), may own directly or indirectly, or be deemed to own through attribution, more than 9.9% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of preferred shares, or equity shares;

no excepted holder, which means certain members of the Hughes family, certain trusts established for the benefit of members of the Hughes family, certain related entities, as well as persons whose ownership of shares would cause members of the Hughes family to be deemed to own shares pursuant to application attribution rules under the Code, may own directly or indirectly common shares if, under the applicable tax attribution rules of the Code, any single excepted holder who is treated as an individual would own more than 35.66%, in value or number of shares, whichever is more restrictive, of any class or series of the outstanding common shares, any two excepted holders treated as individuals would own more than 38.66%, in value or number of shares, whichever is more restrictive, of any class or series of the outstanding common shares, any three excepted holders treated as individuals would own more than 41.66%, in value or number of shares, whichever is more restrictive, of any class or series of the outstanding common shares, any four excepted holders treated as individuals would own more than 44.66%, in value or number of shares, whichever is more restrictive, of any class or series of the outstanding common shares, or any five excepted holders treated as individuals would own more than 47.66%, in value or number of shares, whichever is more restrictive, of any class or series of the outstanding common shares;

no excepted holder, as described above, may own directly or indirectly, or be deemed to own through attribution, more than 15% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of equity shares; there is no special limit specifically applicable to preferred shares except the general ownership limit;

no designated investment entity may acquire or hold, directly or indirectly (or through attribution), shares in excess of the designated investment entity limit of 9.9%, in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of common shares;

a designated investment entity may acquire or hold, directly or indirectly (or through attribution), 100% of the outstanding shares of any class or series of preferred shares or equity shares;

no person shall actually or beneficially own our shares to the extent that such ownership would result in us being closely held under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT at any time; and

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no person shall transfer our shares if such transfer would result in our shares being owned by fewer than 100 persons at any time.

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The excepted holder limit has been established in light of the fact that the Hughes family and certain related trusts and entities own approximately 27% of our common shares, and have the right to acquire additional shares up to 35.66% of our outstanding common shares. The excepted holder limit allows excepted holders, defined in our declaration of trust to include certain members of the Hughes family, certain trusts established for the benefit of members of the Hughes family and certain related entities, to own up to 47.66% of the outstanding shares of any class or series of common shares, so long as no one individual excepted holder would own in excess of 35.66% of the outstanding shares of any such class or series. We believe that the excepted holder limit will not jeopardize our status as a REIT because no five excepted holders can own more than 47.66% of any class or series of our outstanding common shares and, thus, we will be in compliance with the REIT qualification requirement prohibiting five or fewer individuals from owning more than 50% of the value of our outstanding shares.

Our declaration of trust defines a designated investment entity as:

1. an entity that is a pension trust that qualifies for look-through treatment under Section 856(h)(3) of the Code;
2. an entity that qualifies as a regulated investment company under Section 851 of the Code; or
3. an entity (referred to in our declaration of trust as a qualified investment manager) that (i) for compensation engages in the business of advising others as to the value of securities or as to the advisability of investing in, purchasing or selling securities; (ii) purchases securities in the ordinary course of its business and not with the purpose or effect of changing or influencing control of the Trust, nor in connection with or as a participant in any transaction having such purpose or effect, including any transaction subject to Rule 13d-3(b) of the Securities Exchange Act of 1934, as amended; and (iii) has or shares voting power and investment power under the Securities Exchange Act of 1934, as amended;

so long as each beneficial owner of such entity, or in the case of a qualified investment manager holding shares solely for the benefit of its customer account holders, the individual account holders of the accounts managed by such entity, would satisfy the 3% common share or 9.9% preferred share or equity share ownership limit, as applicable, if such beneficial owner or account holder owned directly its proportionate share of the shares held by the entity.

Under our declaration of trust, the board of trustees may, in its sole and absolute discretion, exempt a shareholder that is not an individual from the 3% ownership limit for common shares, the 9.9% ownership limit for preferred and equity shares, or the ownership limit for common shares applicable to designated investment entities, if such shareholder provides information and makes representations to the board of trustees that are satisfactory to the board of trustees, in its sole and absolute discretion, to establish that such person's ownership in excess of the applicable ownership limit would not jeopardize our qualification as a REIT. The board of trustees has granted waivers to certain persons.

Any person who acquires or attempts or intends to acquire actual/or beneficial or constructive ownership of our shares that will or may violate any of the foregoing restrictions on transferability and ownership will be required to give notice immediately to us and provide us with such other information as the board of trustees may request in order to determine the effect of such transfer on our status as a REIT. If any transfer of shares or any other event would otherwise result in any person violating the ownership limits described above, then our declaration of trust provides that (a) the transfer will be void and of no force or effect with respect to the prohibited transferee with respect to that number of shares that exceeds the ownership limits and (b) the prohibited transferee would not acquire any right or interest in the shares. The foregoing restrictions on transferability and ownership will not apply if our board of trustees determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

All certificates representing our shares will bear a legend referring to the restrictions described above.

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Every owner of more than 5% (or such lower percentage as required by the Code or the regulations promulgated thereunder) of all classes or series of our shares, including common shares, will be required to give written notice to us within 30 days after the end of each taxable year stating the name and address of such owner, the number of shares of each class and series of shares that the owner beneficially owns and a description of the manner in which such shares are held. Each such owner shall provide to us such additional information as the board of trustees may request in order to determine the effect, if any, of such beneficial ownership on our status as a REIT and to ensure compliance with the various ownership limitations. In addition, each shareholder shall upon demand be required to provide to the board of trustees such information as the board of trustees may request, in good faith, in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

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DESCRIPTION OF THE DEPOSITARY SHARES

We may, at our option, elect to offer depositary shares, each of which will represent a fractional interest in a preferred share or equity share of a specified series as described in the applicable prospectus supplement. The preferred shares or equity shares represented by the depositary shares will be deposited with Computershare Trust Company, N.A. or another depositary named in the applicable prospectus supplement, under a deposit agreement, among the depositary, the holders of the depositary receipts and us. Depositary receipts, which are certificates evidencing depositary shares, will be delivered to those persons purchasing depositary shares in the offering. The depositary will be the transfer agent, registrar and distribution disbursing agent for the depositary shares. Holders of depositary receipts agree to be bound by the deposit agreement, which requires holders to take certain actions such as filing proof of residence and paying certain charges.

The summary of terms of the depositary shares contained in this prospectus does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the deposit agreement, our declaration of trust and the form of articles supplementary for the applicable series of preferred shares or equity shares.

Distributions

The depositary will distribute all cash or other cash distributions received in respect of the series of preferred shares or equity shares represented by the depositary shares to the record holders of depositary receipts in proportion to the number of depositary shares owned by those holders on the relevant record date, which will be the same date as the record date fixed by us for the applicable series of preferred shares or equity shares. The depositary, however, will distribute only an amount as can be distributed without attributing to any depositary share a fraction of one cent with any undistributed balance added to and treated as part of the next sum received by the depositary for distribution to record holders of depositary receipts then outstanding.

In the event of a distribution other than in cash, the depositary will distribute property received by it to the record holders of depositary receipts that are entitled to receive the distribution, in proportion, as nearly as may be practicable, to the number of depositary shares owned by those holders on the relevant record date, unless the depositary determines (after consultation with us) that it is not feasible to make the distribution. If this occurs, the depositary may (with our approval) sell the property and distribute the net proceeds from that sale to those holders or adopt another method of distribution as it deems equitable and appropriate.

Liquidation Rights

If we liquidate, dissolve or wind up our affairs, whether voluntarily or involuntarily, the holders of each depositary share will be entitled to the fraction of the liquidation amount accorded each share of the applicable series of preferred shares or equity shares, as set forth in the applicable articles supplementary.

Redemption

For all cases where series of preferred shares or equity shares represented by that series of depositary shares is redeemable, those depositary shares will be redeemed from the proceeds received by the depositary resulting from the redemption, in whole or in part, of that series of preferred shares or equity shares held by the depositary. Whenever we redeem any preferred shares or equity shares held by the depositary, the depositary will redeem as of the same redemption date the number of depositary shares representing our preferred shares or equity shares so redeemed. The depositary will mail the notice of redemption promptly upon receipt of such notice from us and not less than 30 nor more than 60 days prior to the date fixed for redemption of our preferred shares or equity shares and the depositary shares to the record holders of the depositary receipts.

Conversion

If the series of preferred shares or equity shares represented by the applicable series of depositary shares is convertible into a different class of our shares, the depositary shares will be also be convertible on the terms described in the applicable prospectus supplement.

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Voting

Promptly upon receipt of notice of any meeting at which the holders of the series of preferred shares or equity shares represented by the applicable series of depositary shares are entitled to vote, the depositary will mail the information contained in the notice of meeting to the record holders of the depositary receipts as of the record date for that meeting. Each record holder of depositary receipts will be entitled to instruct the depositary as to the exercise of the voting rights pertaining to the number of preferred shares or equity shares represented by that record holder's depositary shares. The depositary will then try, as far as practicable, to vote our preferred shares or equity shares represented by such depositary shares in accordance with those instructions, and we will agree to take all action which may be deemed necessary by the depositary in order to enable the depositary to do so. The depositary will not vote any of our preferred shares or equity shares to the extent that it does not receive specific instructions from the holders of depositary receipts.

Withdrawal of Preferred Shares or Equity Shares

Upon surrender of depositary receipts at the principal office of the depositary, upon payment of any unpaid amount due the depositary, and subject to the terms of the deposit agreement, the holder of the depositary shares evidenced by the depositary receipts is entitled to delivery of the number of whole preferred shares or equity shares and all money and other property, if any, represented by those depositary shares. Partial preferred shares or equity shares will not be issued. If the depositary receipts delivered by the holder evidence a number of depositary shares in excess of the number of depositary shares representing the number of whole preferred shares or equity shares to be withdrawn, the depositary will deliver to that holder at the same time a new depositary receipt evidencing the excess number of depositary shares. Holders of withdrawn preferred shares or equity shares will not be entitled to deposit those shares under the deposit agreement or to receive depositary receipts evidencing depositary shares.

Amendment and Termination of Deposit Agreement

The form of depositary receipt evidencing the depositary shares of any series and any provision of the deposit agreement may at any time be amended by agreement between the depositary and us. However, any amendment which materially and adversely alters the rights of the holders (other than any change in fees) of depositary shares of any series will not be effective unless that amendment has been approved by the holders of at least a majority of the depositary shares of that series then outstanding. No such amendment may impair the right, subject to the terms of the deposit agreement, of any owner of any depositary shares to surrender the depositary receipt evidencing those depositary shares with instructions to the depositary to deliver to the holder our preferred shares or equity shares and all money and other property, if any, represented by the depositary receipt, except in order to comply with mandatory provisions of applicable law. The deposit agreement may be terminated by the depositary or by us only if:

- (1) all outstanding depositary shares have been redeemed or
- (2) there has been a final distribution in respect of our preferred shares or equity shares in connection with our liquidation, dissolution or winding up and the distribution has been made to all the holders of depositary shares.

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the depositary in connection with the initial deposit of our preferred shares or equity shares and the initial issuance of the depositary shares, and redemption of our preferred shares or equity shares and all withdrawals of preferred shares or equity shares by owners of depositary shares. Holders of depositary receipts will pay transfer, income and other taxes and governmental charges and those other charges as are provided in the deposit agreement to be for their accounts. In some circumstances, the depositary may refuse to transfer depositary shares, may withhold dividends and distributions and sell the depositary shares evidenced by the depositary receipt if the charges are not paid.

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Miscellaneous

The depositary will forward to the holders of depositary receipts all reports and communications from us which are delivered to the depositary and which we are required to furnish to the holders of our preferred shares or equity shares. In addition, the depositary will make available for inspection by holders of depositary receipts at the principal office of the depositary, and at other places as it may from time to time deem advisable, any reports and communications received from us which are received by the depositary as the holder of preferred shares or equity shares.

Neither the depositary nor we assume any obligation or liability under the deposit agreement to holders of depositary receipts other than for its or our negligence or willful misconduct. Neither the depositary nor we will be liable if the depositary is prevented or delayed by law or any circumstance beyond its control in performing its obligations under the deposit agreement. Our obligations and those of the depositary under the deposit agreement will be limited to performance in good faith of the depositary's duties under the deposit agreement. Neither of them will be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred shares or equity shares unless satisfactory indemnity is furnished. We and the depositary may rely on written advice of counsel or accountants, on information provided by holders of depositary receipts or other persons believed in good faith to be competent to give the information and on documents believed to be genuine and to have been signed or presented by the proper party or parties.

Resignation and Removal of Depositary

The depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the depositary. Any resignation or removal will take effect upon the appointment of a successor depositary and its acceptance of the appointment. The successor depositary must be appointed within 60 days after delivery of the notice for resignation or removal and must be a bank or trust company having its principal office in the United States of America and having a combined capital and surplus of at least \$150,000,000.

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DESCRIPTION OF WARRANTS

We have no warrants outstanding (other than options issued under our option plan). We may issue warrants for the purchase of common shares, preferred shares, equity shares or debt securities. Warrants may be issued independently or together with any other securities offered by any prospectus supplement and may be attached to or separate from those securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between a warrant agent specified in the applicable prospectus supplement and us. The warrant agent will act solely as our agent in connection with the warrants of that series and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants. The following sets forth certain general terms and provisions of the warrants being offered. Further terms of the warrants and the applicable warrant agreement will be set forth in the applicable prospectus supplement.

The applicable prospectus supplement will describe the terms of the warrants in respect of which this prospectus is being delivered, including, where applicable, the following:

- (1) the title of those warrants;
- (2) the aggregate number of those warrants;
- (3) the price or prices at which those warrants will be issued;
- (4) the designation, number and terms of the shares of common shares, preferred shares or equity shares purchasable upon exercise of those warrants;
- (5) the designation and terms of the other equity shares, if any, with which those warrants are issued and the number of those warrants issued with each share;
- (6) the date, if any, on and after which those warrants and the related common shares, preferred shares or equity shares, if any, will be separately transferable;
- (7) the price at which each share of common shares, preferred shares or equity shares purchasable upon exercise of those warrants may be purchased;
- (8) the date on which the right to exercise those warrants will commence and the date on which that right expires;
- (9) the minimum or maximum amount of those warrants which may be exercised at any one time; and
- (10) any other terms of those warrants, including terms, procedures and limitations relating to the exchange and exercise of those warrants.

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DESCRIPTION OF DEBT SECURITIES

The following descriptions of the debt securities do not purport to be complete and are subject to and qualified in their entirety by reference to the indenture, a form of which has been filed with the SEC as an exhibit to the registration statement of which this prospectus is a part. Any future supplemental indenture or similar document also will be so filed. You should read the indenture and any supplemental indenture or similar document because they, and not this description, define your rights as holder of our debt securities. All capitalized terms have the meanings specified in the indenture.

We may issue, from time to time, debt securities, in one or more series, that will consist of either our senior debt (the **Senior Debt Securities**) or our subordinated debt securities (the **Subordinated Debt Securities**). The debt securities we offer will be issued under one or more indentures between us and a trustee (the **Trustee**), which may be the same trustee. Debt securities, whether senior or subordinated, may be issued as convertible debt securities or exchangeable debt securities.

General Terms of the Indenture

The indenture does not limit the amount of debt securities that we may issue. It provides that we may issue debt securities up to the principal amount that we may authorize and may be in any currency or currency unit designated by us. Except for the limitations on consolidation, merger and sale of all or substantially all of our assets contained in the indenture, the terms of the indenture do not contain any covenants or other provisions designed to afford holders of any debt securities protection with respect to our operations, financial condition or transactions involving us.

We may issue the debt securities issued under the indenture as **discount securities**, which means they may be sold at a discount below their stated principal amount. These debt securities, as well as other debt securities that are not issued at a discount, may, for U.S. federal income tax purposes, be treated as if they were issued with **original issue discount**, or **OID**, because of interest payment and other characteristics. Special U.S. federal income tax considerations applicable to debt securities issued with original issue discount will be described in more detail in any applicable prospectus supplement.

The applicable prospectus supplement for a series of debt securities that we issue will describe, among other things, the following terms of the offered debt securities:

the title;

the aggregate principal amount;

whether issued in fully registered form without coupons or in a form registered as to principal only with coupons or in bearer form with coupons;

whether issued in the form of one or more global securities and whether all or a portion of the principal amount of the debt securities is represented thereby;

the price or prices at which the debt securities will be issued;

the date or dates on which principal is payable;

the place or places where and the manner in which principal, premium or interest will be payable and the place or places where the debt securities may be presented for transfer and, if applicable, conversion or exchange;

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interest rates, and the dates from which interest, if any, will accrue, and the dates when interest is payable;

the right, if any, to extend the interest payment periods and the duration of the extensions;

our rights or obligations to redeem or purchase the debt securities, including sinking fund or partial redemption payments;

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conversion or exchange provisions, if any, including conversion or exchange prices or rates and adjustments thereto;

the currency or currencies of payment of principal or interest;

the terms applicable to any debt securities issued at a discount from their stated principal amount;

the terms, if any, pursuant to which any debt securities will be subordinate to any of our other debt;

if the amount of payments of principal or interest is to be determined by reference to an index or formula, or based on a coin or currency other than that in which the debt securities are stated to be payable, the manner in which these amounts are determined and the calculation agent, if any, with respect thereto;

if other than the entire principal amount of the debt securities when issued, the portion of the principal amount payable upon acceleration of maturity, and the terms and conditions of any acceleration;

if applicable, covenants affording holders of debt protection with respect to our operations, financial condition or transactions involving us; and

any other specific terms of any debt securities.

The applicable prospectus supplement will set forth material U.S. federal income tax considerations for holders of any debt securities and the securities exchange or quotation system on which any debt securities are listed or quoted, if any.

Debt securities issued by us will be structurally subordinated to all indebtedness and other liabilities of our subsidiaries, except to the extent any such subsidiary guarantees or is otherwise obligated to make payment on such debt securities.

Unless otherwise provided in the applicable prospectus supplement, all securities of any one series need not be issued at the same time and may be issued from time to time without consent of any holder.

Senior Debt Securities

Payment of the principal of, premium, if any, and interest on Senior Debt Securities will rank on a parity with all of our other unsecured and unsubordinated debt.

Subordinated Debt Securities

Payment of the principal of, premium, if any, and interest on Subordinated Debt Securities will be subordinated and junior in right of payment to the prior payment in full of all of our senior debt. We will set forth in the applicable prospectus supplement relating to any Subordinated Debt Securities the subordination terms of such securities as well as the aggregate amount of outstanding indebtedness, as of the most recent practicable date, that by its terms would be senior to the Subordinated Debt Securities. We will also set forth in such prospectus supplement limitations, if any, on issuance of additional senior debt.

Conversion or Exchange Rights

Debt securities may be convertible into or exchangeable for shares of beneficial interest or property of the Company. The terms and conditions of conversion or exchange will be set forth in the applicable prospectus supplement. The terms will include, among others, the following:

the conversion or exchange price;

the conversion or exchange period;

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provisions regarding the ability of the Company or the holder to convert or exchange the debt securities;

events requiring adjustment to the conversion or exchange price; and

provisions affecting conversion or exchange in the event of our redemption of the debt securities.

Consolidation, Merger or Sale

We cannot consolidate or merge with or into, or transfer or lease all or substantially all of our assets to, any person unless (a) we will be the continuing corporation or (b) the successor corporation or person to which our assets are transferred or leased is a corporation organized under the laws of the United States, any state of the United States or the District of Columbia and it expressly assumes our obligations on the debt securities and under the indenture. In addition, we cannot effect such a transaction unless immediately after giving effect to such transaction, no default or event of default under the indenture shall have occurred and be continuing. Subject to certain exceptions, when the person to whom our assets are transferred or leased has assumed our obligations under the debt securities and the indenture, we shall be discharged from all our obligations under the debt securities and the indenture, except in limited circumstances.

This covenant would not apply to any recapitalization transaction, a change of control of the Company or a highly leveraged transaction, unless the transaction or change of control were structured to include a merger or consolidation or transfer or lease of all or substantially all of our assets.

Events of Default

Unless otherwise indicated, the term Event of Default, when used in the indenture, means any of the following:

failure to pay interest for 30 days after the date payment is due and payable;

failure to pay principal or premium, if any, on any debt security when due, either at maturity, upon any redemption, by declaration or otherwise;

failure to make sinking fund payments when due;

failure to perform any other covenant for 60 days after notice that performance was required;

events of bankruptcy, insolvency or reorganization of the Company; or

any other Event of Default provided in the applicable resolution of our board of trustees or the supplemental indenture under which we issue series of debt securities.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the indenture. Unless otherwise indicated in the applicable prospectus supplement, an Event of Default relating to the payment of interest, principal or any sinking fund installment involving any series of debt securities has occurred and is continuing, the trustee or the holders of not less than 25% in aggregate principal amount of the debt securities of each affected series may declare the entire principal of all the debt securities of that series to be due and payable immediately.

Unless otherwise indicated in the applicable prospectus supplement, an Event of Default relating to the performance of other covenants occurs and is continuing for a period of 60 days after notice of such, or if any other Event of Default occurs and is continuing involving all of the series of Senior Debt Securities, then the trustee or the holders of not less than 25% in aggregate principal amount of all of the series of Senior Debt

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Securities may declare the entire principal amount of all of the series of Senior Debt Securities due and payable immediately.

Similarly, unless otherwise indicated in the applicable prospectus supplement, if an Event of Default relating to the performance of other covenants occurs and is continuing for a period of 60 days after notice of such, or if any other Event of Default occurs and is continuing involving all of the series of Subordinated Debt

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Securities, then the trustee or the holders of not less than 25% in aggregate principal amount of all of the series of Subordinated Debt Securities may declare the entire principal amount of all of the series of Subordinated Debt Securities due and payable immediately.

If, however, the Event of Default relating to the performance of other covenants or any other Event of Default that has occurred and is continuing is for less than all of the series of Senior Debt Securities or Subordinated Debt Securities, as the case may be, then, unless otherwise indicated in the applicable prospectus supplement, the trustee or the holders of not less than 25% in aggregate principal amount of each affected series of the Senior Debt Securities or the Subordinated Debt Securities, as the case may be, may declare the entire principal amount of all debt securities of such affected series due and payable immediately. The holders of not less than a majority in aggregate principal amount of the debt securities of a series may, after satisfying conditions, rescind and annul any of the above-described declarations and consequences involving the series.

If an Event of Default relating to events of bankruptcy, insolvency or reorganization of the Company occurs and is continuing, then the principal amount of all of the debt securities outstanding, and any accrued interest, will automatically become due and payable immediately, without any declaration or other act by the trustee or any holder.

The indenture imposes limitations on suits brought by holders of debt securities against us. Except as provided below, no holder of debt securities of any series may institute any action against us under the indenture unless:

the holder has previously given to the trustee written notice of default and continuance of that default;

the holders of at least 25% in principal amount of the outstanding debt securities of the affected series have requested that the trustee institute the action;

the requesting holders have offered the trustee reasonable indemnity for expenses and liabilities that may be incurred by bringing the action;

the trustee has not instituted the action within 60 days of the request; and

the trustee has not received inconsistent direction by the holders of a majority in principal amount of the outstanding debt securities of the series.

Notwithstanding the foregoing, each holder of debt securities of any series has the right, which is absolute and unconditional, to receive payment of the principal of and premium and interest, if any, on such debt securities when due and to institute suit for the enforcement of any such payment, and such rights may not be impaired without the consent of that holder of debt securities.

We will be required to file annually with the Trustee a certificate, signed by an officer of the Company, stating whether or not the officer knows of any default by us in the performance, observance or fulfillment of any condition or covenant of the indenture.

Registered Global Securities

We may issue the debt securities of a series in whole or in part in the form of one or more fully registered global securities that we will deposit with a depositary or with a nominee for a depositary identified in the applicable prospectus supplement and registered in the name of such depositary or nominee. In such case, we will issue one or more registered global securities denominated in an amount equal to the aggregate principal amount of all of the debt securities of the series to be issued and represented by such registered global security or securities.

Unless and until it is exchanged in whole or in part for debt securities in definitive registered form, a registered global security may not be transferred except as a whole:

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by the depositary for such registered global security to its nominee;

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by a nominee of the depositary to the depositary or another nominee of the depositary; or

by the depositary or its nominee to a successor of the depositary or a nominee of the successor.

The prospectus supplement relating to a series of debt securities will describe the specific terms of the depositary arrangement with respect to any portion of such series represented by a registered global security. We anticipate that the following provisions will apply to all depositary arrangements for debt securities:

ownership of beneficial interests in a registered global security will be limited to persons that have accounts with the depositary for the registered global security, those persons being referred to as participants, or persons that may hold interests through participants;

upon the issuance of a registered global security, the depositary for the registered global security will credit, on its book-entry registration and transfer system, the participants' accounts with the respective principal amounts of the debt securities represented by the registered global security beneficially owned by the participants;

any dealers, underwriters, or agents participating in the distribution of the debt securities will designate the accounts to be credited; and

ownership of any beneficial interest in the registered global security will be shown on, and the transfer of any ownership interest will be effected only through, records maintained by the depositary for the registered global security (with respect to interests of participants) and on the records of participants (with respect to interests of persons holding through participants).

The laws of some states may require that certain purchasers of securities take physical delivery of the securities in definitive form. These laws may limit the ability of those persons to own, transfer or pledge beneficial interests in registered global securities.

So long as the depositary for a registered global security, or its nominee, is the registered owner of the registered global security, the depositary or the nominee, as the case may be, will be considered the sole owner or holder of the debt securities represented by the registered global security for all purposes under the indenture. Except as set forth below, owners of beneficial interests in a registered global security:

will not be entitled to have the debt securities represented by a registered global security registered in their names;

will not receive or be entitled to receive physical delivery of the debt securities in the definitive form; and

will not be considered the owners or holders of the debt securities under the indenture.

Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depositary for the registered global security and, if the person is not a participant, on the procedures of a participant through which the person owns its interest, to exercise any rights of a holder under the indenture.

We understand that under existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a registered global security desires to give or take any action that a holder is entitled to give or take under the indenture, the depositary for the registered global security would authorize the participants holding the relevant beneficial interests to give or take the action, and those participants would authorize beneficial owners owning through those participants to give or take the action or would otherwise act upon the instructions of beneficial owners holding through them.

We will make payments of principal and premium, if any, and interest, if any, on debt securities represented by a registered global security registered in the name of a depositary or its nominee to the depositary or its nominee, as the case may be, as the registered owners of the

registered global security. None of the Company, the

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trustee or any other agent of the Company or the trustee will be responsible or liable for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the registered global security or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

We expect that the depositary for any debt securities represented by a registered global security, upon receipt of any payments of principal and premium, if any, and interest, if any, in respect of the registered global security, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the registered global security as shown on the records of the depositary. We also expect that standing customer instructions and customary practices will govern payments by participants to owners of beneficial interests in the registered global security held through the participants, as is now the case with the securities held for the accounts of customers in bearer form or registered in street name. We also expect that any of these payments will be the responsibility of the participants.

If the depositary for any debt securities represented by a registered global security is at any time unwilling or unable to continue as depositary or ceases to be a clearing agency registered under the Exchange Act, we will appoint an eligible successor depositary. If we fail to appoint an eligible successor depositary within 90 days, we will issue the debt securities in definitive form in exchange for the registered global security. In addition, we may at any time and in our sole discretion decide not to have any of the debt securities of a series represented by one or more registered global securities. In such event, we will issue debt securities of that series in a definitive form in exchange for all of the registered global securities representing the debt securities. The trustee will register any debt securities issued in definitive form in exchange for a registered global security in such name or names as the depositary, based upon instructions from its participants, shall instruct the trustee.

We may also issue bearer debt securities of a series in the form of one or more global securities, referred to as bearer global securities. We will deposit these bearer global securities with a common depositary for Euroclear System and Clearstream Bank Luxembourg, Societe Anonyme, or with a nominee for the depositary identified in the prospectus supplement relating to that series. The prospectus supplement relating to a series of debt securities represented by a bearer global security will describe the specific terms and procedures, including the specific terms of the depositary arrangement and any specific procedures for the issuance of debt securities in definitive form in exchange for a bearer global security, with respect to the position of the series represented by a bearer global security.

Discharge, Defeasance and Covenant Defeasance

We can discharge or defease our obligations under the indenture as set forth below. Unless otherwise set forth in the applicable prospectus supplement, the subordination provisions applicable to any Subordinated Debt Securities will be expressly subject to the discharge and defeasance provisions of the indenture.

We may discharge some of our obligations to holders of any series of debt securities that have not already been delivered to the trustee for cancellation and that have either become due and payable or are by their terms to become due and payable within one year (or are scheduled for redemption within one year). We may effect a discharge by irrevocably depositing with the trustee cash or U.S. government obligations, as trust funds, in an amount certified to be sufficient to pay when due, whether at maturity, upon redemption or otherwise, the principal of, premium, if any, and interest on the debt securities and any mandatory sinking fund payments.

Unless otherwise provided in the applicable prospectus supplement, we may also discharge any and all of our obligations to holders of any series of debt securities at any time (defeasance). We also may be released from the obligations imposed by any covenants of any outstanding series of debt securities and provisions of the indenture, and we may omit to comply with those covenants without creating an Event of Default (covenant defeasance). We may effect defeasance and covenant defeasance only if, among other things:

we irrevocably deposit with the trustee cash or U.S. government obligations, as trust funds, in an amount certified to be sufficient to pay at maturity (or upon redemption) the principal, premium, if any, and interest on all outstanding debt securities of the series; and

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we deliver to the trustee an opinion of counsel from a nationally recognized law firm to the effect that the holders of the series of debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance or covenant defeasance and that defeasance or covenant defeasance will not otherwise alter the holders' U.S. federal income tax treatment of principal, premium, if any, and interest payments on the series of debt securities, which opinion, in the case of legal defeasance, must be based on a ruling of the Internal Revenue Service issued, or a change in U.S. federal income tax law.

Although we may discharge or defease our obligations under the indenture as described in the two preceding paragraphs, we may not avoid, among other things, our duty to register the transfer or exchange of any series of debt securities, to replace any temporary, mutilated, destroyed, lost or stolen series of debt securities or to maintain an office or agency in respect of any series of debt securities.

Modification of the Indenture

The indenture provides that we and the trustee may enter into supplemental indentures without the consent of the holders of debt securities to:

secure any debt securities;

evidence the assumption by a successor corporation of our obligations;

add covenants for the protection of the holders of debt securities;

cure any ambiguity or correct any inconsistency in the indenture;

establish the forms or terms of debt securities of any series; and

evidence and provide for the acceptance of appointment by a successor trustee.

The indenture also provides that we and the trustee may, with the consent of the holders of not less than a majority in aggregate principal amount of debt securities of all series of Senior Debt Securities or Subordinated Debt Securities, as the case may be, then outstanding and affected (voting as one class), add any provisions to, or change in any manner, eliminate or modify in any way the provisions of, the indenture or modify in any manner the rights of the holders of the debt securities. We and the trustee may not, however, without the consent of the holder of each outstanding debt security affected thereby:

extend the final maturity of any debt security;

reduce the principal amount or premium, if any;

reduce the rate or extend the time of payment of interest;

reduce any amount payable on redemption;

change the currency in which the principal (other than as may be provided otherwise with respect to a series), premium, if any, or interest is payable;

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reduce the amount of the principal of any debt security issued with an original issue discount that is payable upon acceleration or provable in bankruptcy;

modify any of the subordination provisions or the definition of senior indebtedness applicable to any Subordinated Debt Securities in a manner adverse to the holders of those securities;

alter provisions of the indenture relating to the debt securities not denominated in U.S. dollars;

impair the right to institute suit for the enforcement of any payment on any debt security when due; or

reduce the percentage of holders of debt securities of any series whose consent is required for any modification of the indenture.

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A prospectus supplement may set forth modifications or additions to these provisions with respect to a particular series of Debt Securities.

Concerning the Trustee

The indenture provides that there may be more than one trustee under the indenture, each with respect to one or more series of debt securities. If there are different trustees for different series of debt securities, each trustee will be a trustee of a trust under the indenture separate and apart from the trust administered by any other trustee under the indenture. Except as otherwise indicated in this prospectus or any prospectus supplement, any action permitted to be taken by a trustee may be taken by such trustee only with respect to the one or more series of debt securities for which it is the trustee under the indenture. Any trustee under the indenture may resign or be removed with respect to one or more series of debt securities. All payments of principal of, premium, if any, and interest on, and all registration, transfer, exchange, authentication and delivery (including authentication and delivery on original issuance of the debt securities) of, the debt securities of a series will be effected by the trustee with respect to that series at an office designated by the trustee in New York, New York.

The indenture contains limitations on the right of the trustee, should it become a creditor of the Company, to obtain payment of claims in some cases or to realize on certain property received in respect of any such claim as security or otherwise. The trustee may engage in other transactions. If it acquires any conflicting interest relating to any duties with respect to the debt securities, however, it must eliminate the conflict or resign as trustee.

The holders of a majority in aggregate principal amount of any series of debt securities then outstanding will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee with respect to such series of debt securities, provided that the direction would not conflict with any rule of law or with the indenture, would not be unduly prejudicial to the rights of another holder of the debt securities, and would not involve any trustee in personal liability. The indenture provides that in case an Event of Default shall occur and be known to any trustee and not be cured, the trustee must use the same degree of care as a prudent person would use in the conduct of his or her own affairs in the exercise of the trustee's power. Subject to these provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any of the holders of the debt securities, unless they shall have offered to the trustee security and indemnity satisfactory to the trustee.

No Individual Liability of Incorporators, Shareholders, Officers or Trustees

The indenture provides that no incorporator and no past, present or future shareholder, officer or trustee, of the Company or any successor corporation in their capacity as such shall have any individual liability for any of our obligations, covenants or agreements under the debt securities or the indenture.

Governing Law

The indenture and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

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MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

For purposes of the following discussion, references to our company, we and us mean Public Storage and not its subsidiaries or affiliates. The following discussion describes the material U.S. federal income tax considerations relating to the taxation of Public Storage as a REIT and the acquisition, ownership and disposition of our common shares. If we offer debt securities or equity securities other than common shares, information about any additional income tax consequences to holders of those securities will be included in the documents pursuant to which those securities are offered.

Because this is a summary that is intended to address only the federal income tax considerations relating to the ownership and disposition of our common shares, it may not contain all the information that may be important in your specific circumstances. As you review this discussion, you should keep in mind that:

- (1) The tax considerations to you may vary depending on your particular tax situation;
- (2) Special rules that are not discussed below may apply to you if, for example, you are a tax-exempt organization, a broker-dealer, a non-U.S. person, a trust, an estate, a regulated investment company, a financial institution, an insurance company, or otherwise subject to special tax treatment under the Internal Revenue Code (the Code);
- (3) This summary does not address state, local or non-U.S. tax considerations;
- (4) This summary deals only with Public Storage common shareholders that hold common shares as capital assets, within the meaning of Section 1221 of the Code; and
- (5) This discussion is not intended to be, and should not be construed as, tax advice.

You are urged both to review the following discussion and to consult with your tax advisor to determine the effect of acquiring, owning and disposing of our common shares in your individual tax situation, including any state, local or non-U.S. tax consequences.

The information in this section is based on the Code, current, temporary and proposed regulations promulgated by the U.S. Treasury Department, the legislative history of the Code, current administrative interpretations and practices of the Internal Revenue Service (IRS), and court decisions. The reference to IRS interpretations and practices includes IRS practices and policies as endorsed in private letter rulings, which are not binding on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this registration statement. Future legislation, regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law. Any change could apply retroactively. Except as described under Taxation of Public Storage as a REIT Income Tests Applicable to REITs, we have not obtained any rulings from the IRS concerning the tax treatment of the matters discussed below. Accordingly, even if there is no change in the applicable law, no assurance can be provided that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged.

Taxation of Public Storage as a REIT

General. We elected to be taxed as a REIT under the Code beginning with our taxable year ended December 31, 1981. A REIT generally is not subject to federal income tax on the net income that it distributes to shareholders if it meets the applicable REIT distribution requirements and other requirements for REIT qualification under the Code.

We believe that we have been and that we are organized and have operated, and we intend to continue to operate, in a manner to qualify as a REIT, but there can be no assurance that we qualify or will remain qualified as a REIT. Qualification and taxation as a REIT depend upon our ability to meet, through actual annual (or in

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some cases quarterly) operating results, requirements relating to income, asset ownership, distribution levels and diversity of share ownership, and the various other REIT qualification requirements imposed under the Code. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in our circumstances, we cannot provide any assurance that our actual operating results will satisfy the requirements for taxation as a REIT under the Code for any particular taxable year.

The sections of the Code that relate to our qualification and operation as a REIT are highly technical and complex. This discussion sets forth the material aspects of the sections of the Code that govern the federal income tax treatment of a REIT and its shareholders. This summary is qualified in its entirety by the applicable Code provisions, relevant rules and Treasury regulations, and related administrative and judicial interpretations.

Taxation. For each taxable year in which we qualify for taxation as a REIT, we generally will not be subject to federal corporate income tax on our net income that is distributed currently to our shareholders. U.S. Shareholders (as defined below) generally will be subject to taxation on dividends (other than designated capital gain dividends and qualified dividend income) at rates applicable to ordinary income, instead of at lower capital gain rates. Qualification for taxation as a REIT enables the REIT and its shareholders to substantially eliminate the double taxation (that is, taxation at both the corporate and shareholder levels) that generally results from an investment in a regular corporation. Regular corporations (non-REIT C corporations) generally are subject to federal corporate income taxation on their income and shareholders of regular corporations are subject to tax on any dividends that are received. Currently, however, shareholders of regular corporations who are taxed at individual rates generally are taxed on dividends they receive at capital gains rates, which are lower for individuals than ordinary income rates, and shareholders of regular corporations who are taxed at regular corporate rates will receive the benefit of a dividends received deduction that substantially reduces the effective rate that they pay on such dividends. Income earned by a REIT and distributed currently to its shareholders generally will be subject to lower aggregate rates of federal income taxation than if such income were earned by a non-REIT C corporation, subjected to corporate income tax, and then distributed to shareholders and subjected to tax either at capital gain rates or the effective rate paid by a corporate recipient entitled to the benefit of the dividends received deduction.

While we generally will not be subject to corporate income taxes on income that we distribute currently to shareholders, we will be subject to federal income tax as follows:

1. We will be taxed at regular corporate rates on any undistributed REIT taxable income. REIT taxable income is the taxable income of the REIT subject to specified adjustments, including a deduction for dividends paid.
2. We may be subject to the alternative minimum tax on our undistributed items of tax preference, if any.
3. If we have (1) net income from the sale or other disposition of foreclosure property that is held primarily for sale to tenants in the ordinary course of business, or (2) other non-qualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on this income.
4. Our net income from prohibited transactions will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to tenants in the ordinary course of business other than foreclosure property.
5. If we fail to satisfy either the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintain our qualification as a REIT because other requirements are met, we will be subject to a tax equal to the gross income attributable to the greater of either (1) the amount by which 75% of our gross income exceeds the amount of our income qualifying under the 75% test for the taxable year or (2) the amount by which 95% of our gross income exceeds the amount of our income qualifying for the 95% income test for the taxable year, multiplied in either case by a fraction intended to reflect our profitability.

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6. We will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the sum of amounts actually distributed, excess distributions from the preceding tax year and amounts retained for which federal income tax was paid if we fail to make the required distributions by the end of a calendar year. The required distributions for each calendar year is equal to the sum of:

85% of our REIT ordinary income for the year;

95% of our REIT capital gain net income for the year; and

any undistributed taxable income from prior taxable years.

7. We will be subject to a 100% penalty tax on some payments we receive (or on certain expenses deducted by a taxable REIT subsidiary) if arrangements among us, our tenants, and our taxable REIT subsidiaries are not comparable to similar arrangements among unrelated parties.

8. If we acquire any assets from a non-REIT C corporation in a carry-over basis transaction (such as in the case of our 1995 merger with Public Storage Management), we would be liable for corporate income tax, at the highest applicable corporate rate for the built-in gain with respect to those assets if we disposed of those assets within 10 years after they were acquired. Built-in gain is the amount by which an asset's fair market value exceeds its adjusted tax basis at the time we acquire the asset. To the extent that assets are transferred to us in a carry-over basis transaction by a partnership in which a corporation owns an interest, we will be subject to this tax in proportion to the non-REIT C corporation's interest in the partnership. We also have acquired assets in carryover basis merger transactions with a number of REITs (including our 1999 merger with Storage Trust Realty). If any such acquired REIT failed to qualify as a REIT at the time of its merger into us, it would have been a non-REIT C corporation and we also would be liable for tax liabilities inherited from it.

9. With regard to our 2005 and subsequent taxable years, if we fail to satisfy one of the REIT asset tests (other than certain de minimis failures), but nonetheless maintain our qualification as a REIT because other requirements are met, we will be subject to a tax equal to the greater of \$50,000 or the amount determined by *multiplying* the net income generated by the non-qualifying assets during the period of time that the assets were held as non-qualifying assets by the highest rate of tax applicable to corporations.

10. With regard to our 2005 and subsequent taxable years, if we fail to satisfy certain of the requirements under the Code the failure of which would result in the loss of our REIT status, and the failure is due to reasonable cause and not willful neglect, we may be required to pay a penalty of \$50,000 for each such failure in order to maintain our qualification as a REIT.

11. If we fail to comply with the requirements to send annual letters to our shareholders requesting information regarding the actual ownership of our shares and the failure was not due to reasonable cause or was due to willful neglect, we will be subject to a \$25,000 penalty or, if the failure is intentional, a \$50,000 penalty.

Furthermore, notwithstanding our status as a REIT, we also may have to pay certain state and local income taxes, because not all states and localities treat REITs the same as they are treated for federal income tax purposes. Moreover, each of our taxable REIT subsidiaries (as further described below) is subject to federal, state and local corporate income taxes on its net income.

If we are subject to taxation on our REIT taxable income or subject to tax due to the sale of a built-in gain asset that was acquired in a carry-over basis from a non-REIT C Corporation, some of the dividends we pay to our shareholders during the following year may be subject to tax at the reduced capital gains rates, rather than taxed at ordinary income rates. See *Taxation of U.S. Shareholders - Qualified Dividend Income*.

Requirements for Qualification as a REIT. The Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) that issues transferable shares or transferable certificates to evidence its beneficial ownership;

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- (3) that would be taxable as a domestic corporation, but for Sections 856 through 860 of the Code;
- (4) that is neither a financial institution nor an insurance company within the meaning of certain provisions of the Code;
- (5) that is beneficially owned by 100 or more persons;
- (6) not more than 50% in value of the outstanding shares or other beneficial interest of which is owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities and as determined by applying certain attribution rules) during the last half of each taxable year;
- (7) that makes an election to be a REIT for the current taxable year, or has made such an election for a previous taxable year that has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status;
- (8) that uses a calendar year for federal income tax purposes and complies with the recordkeeping requirements of the Code and the Treasury regulations promulgated thereunder; and
- (9) that meets other applicable tests, described below, regarding the nature of its income and assets and the amount of its distributions.

The Code provides that conditions (1), (2), (3) and (4) above must be met during the entire taxable year and condition (5) above must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Conditions (5) and (6) do not apply until after the first taxable year for which an election is made to be taxed as a REIT. Condition (6) must be met during the last half of each taxable year. For purposes of determining share ownership under condition (6) above, a supplemental unemployment compensation benefits plan, a private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes generally is considered an individual. However, a trust that is a qualified trust under Code Section 401(a) generally is not considered an individual, and beneficiaries of a qualified trust are treated as holding shares of a REIT in proportion to their actuarial interests in the trust for purposes of condition (6) above.

We believe that we have been organized, have operated and have issued sufficient shares of beneficial ownership with sufficient diversity of ownership to allow us to satisfy the above conditions. In addition, our organizational documents contain restrictions regarding the transfer of our shares that are intended to assist us in continuing to satisfy the share ownership requirements described in conditions (5) and (6) above. The ownership restrictions in our declaration of trust generally prohibit the actual or constructive ownership of more than 3% of our outstanding common shares or more than 9.9% of the outstanding class or series of preferred or equity shares, in each case, other than certain excepted holders or designated investment entities, (each as defined in our declaration of trust), which are subject to separate limits set forth in our declaration of trust, unless an exemption is granted by the board of trustees. See Ownership Limitations. At the time of the merger with Public Storage Management, to further assist us in meeting the ownership restrictions, the Hughes family entered into an agreement with us for the benefit of Public Storage and certain designated charitable beneficiaries providing that if, at any time, for any reason, more than 50% in value of our outstanding shares otherwise would be considered owned by five or fewer individuals, then a number of common shares owned by Wayne Hughes necessary to cure such violation would automatically and irrevocably be transferred to a designated charitable beneficiary.

The REIT protective provisions of our organizational documents are modeled after certain arrangements that the IRS has ruled in private letter rulings will preclude a REIT from being considered to violate the ownership restrictions so long as the arrangements are enforceable as a matter of state law and the REIT seeks to enforce them as and when necessary. There can be no assurance, however, that the IRS might not seek to take a different position concerning Public Storage (a private letter ruling is legally binding only as to the taxpayer to whom it was issued and we will not seek a private ruling on this issue) or contend that we failed to enforce these various arrangements. Accordingly, there can be no assurance that these arrangements necessarily will preserve our REIT status. If we fail to satisfy these share ownership requirements, we will fail to qualify as a REIT.

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To monitor compliance with condition (6) above, a REIT is required to send annual letters to its shareholders requesting information regarding the actual ownership of its shares. If we comply with the annual letters requirement and do not know, or exercising reasonable diligence, would not have known, of a failure to meet condition (6) above, then we will be treated as having met condition (6) above.

To qualify as a REIT, we cannot have at the end of any taxable year any undistributed earnings and profits that are attributable to a non-REIT taxable year. As a result of the 1995 merger with Public Storage Management, the 1999 merger with Storage Trust Realty and mergers with other affiliated REITs, Public Storage has succeeded to various tax attributes of those entities and their predecessors, including any undistributed earnings and profits. We do not believe that we have acquired any undistributed non-REIT earnings and profits and we believe that the REITs with which we have merged qualified as REITs at the time of acquisition. However, neither these entities nor Public Storage has sought an opinion of counsel or outside accountants to the effect that we did not acquire any undistributed non-REIT earnings and profits. There can be no assurance that the IRS would not contend otherwise on a subsequent audit.

If the IRS determined that we inherited undistributed non-REIT earnings and profits and that we did not distribute the non-REIT earnings and profits by the end of that taxable year, it appears that we could avoid disqualification as a REIT by using deficiency dividend procedures to distribute the non-REIT earnings and profits. The deficiency dividend procedures would require us to make a distribution to shareholders, in addition to the regularly required REIT distributions, within 90 days of the IRS determination. In addition, we would have to pay to the IRS interest on 50% of the non-REIT earnings and profits that were not distributed prior to the end of the taxable year in which we inherited the undistributed non-REIT earnings and profits. If, however, we were considered to be a successor under the applicable Treasury regulations to a corporation that had failed to qualify as a REIT at the time of its merger with Public Storage, we could fail to qualify as a REIT and could be prevented from reelecting REIT status for up to four years after such failure to qualify.

Qualified REIT Subsidiaries. We may acquire 100% of the stock of one or more corporations that are qualified REIT subsidiaries. A corporation will qualify as a qualified REIT subsidiary if we own 100% of its stock and it is not a taxable REIT subsidiary. A qualified REIT subsidiary will not be treated as a separate corporation, and all assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary will be treated as our assets, liabilities and such items (as the case may be) for all purposes of the Code, including the REIT qualification tests. For this reason, references in this discussion to our income and assets should be understood to include the income and assets of any qualified REIT subsidiary we own. A qualified REIT subsidiary will not be subject to federal income tax, although it may be subject to state and local taxation in some states. Our ownership of the voting stock of a qualified REIT subsidiary will not violate the asset test restrictions against ownership of securities of any one issuer which constitute more than 10% of the voting power or value of such issuer's securities or more than five percent of the value of our total assets, as described below in *Asset Tests Applicable to REITs*.

Taxable REIT Subsidiaries. A taxable REIT subsidiary is a corporation other than a REIT in which we directly or indirectly hold stock, which has made a joint election with us to be treated as a taxable REIT subsidiary under Section 856(l) of the Code. A taxable REIT subsidiary also includes any corporation other than a REIT in which a taxable REIT subsidiary of ours owns, directly or indirectly, securities, (other than certain straight debt securities), which represent more than 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to our tenants without causing us to receive impermissible tenant service income under the REIT gross income tests. A taxable REIT subsidiary is required to pay regular federal income tax, and state and local income tax where applicable, as a non-REIT C corporation. In addition, a taxable REIT subsidiary may be prevented from deducting interest on debt funded directly or indirectly by us if certain tests regarding the taxable REIT subsidiary's debt to equity ratio and interest expense are not satisfied. If dividends are paid to us by our taxable REIT subsidiary, then a portion of the dividends we distribute to shareholders who are taxed at individual rates

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will generally be eligible for taxation at lower capital gains rates, rather than at ordinary income rates. See Taxation of U.S. Shareholders Qualified Dividend Income.

Generally, a taxable REIT subsidiary can perform impermissible tenant services without causing us to receive impermissible tenant services income under the REIT income tests. However, several provisions applicable to the arrangements between a REIT and its taxable REIT subsidiaries are intended to ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made directly or indirectly to us in excess of a certain amount. In addition, a REIT will be obligated to pay a 100% penalty tax on some payments that it receives or on certain expenses deducted by the taxable REIT subsidiary if the economic arrangements between the REIT, the REIT's tenants and the taxable REIT subsidiary are not comparable to similar arrangements among unrelated parties. Our taxable REIT subsidiaries may make interest and other payments to us and to third parties in connection with activities related to our properties. There can be no assurance that our taxable REIT subsidiaries will not be limited in their ability to deduct certain interest payments made to us. In addition, there can be no assurance that the IRS might not seek to impose the 100% excise tax on a portion of payments received by us from, or expenses deducted by, our taxable REIT subsidiaries.

PS Orangeco, Inc. (and its subsidiaries, including PS Pickup & Delivery, Inc.), PSCC, Inc., PS Insurance Company Hawaii, Ltd. and certain other corporations (including corporations the interests in which were directly or indirectly acquired in connection with the Shurgard merger) have elected, together with us, to be treated as taxable REIT subsidiaries of Public Storage. These entities engage in businesses such as the portable self-storage business, providing moving services and tenant reinsurance, selling locks, boxes and packing materials, and renting trucks, among other activities.

Ownership of Partnership Interests by a REIT. A REIT that owns an equity interest in an entity treated as a partnership for federal income tax purposes is deemed to own its share (based upon its proportionate share of the capital of the partnership) of the assets of the partnership and is deemed to earn its proportionate share of the partnership's income. The assets and gross income of the partnership retain the same character in the hands of the REIT for purposes of the gross income and asset tests applicable to REITs as described below. In the mergers with Public Storage Management and Storage Trust Realty, the formation of PS Business Parks, L.P., and in other transactions, we have acquired interests in various partnerships that own and operate properties. Thus, our proportionate share of the assets and items of income of Storage Trust Properties, L.P., PS Business Parks, L.P. or other partnerships, including any such partnerships' shares of assets and items of income of any subsidiaries that are partnerships or limited liability companies treated as partnerships for federal income tax purposes, are treated as assets and items of income of Public Storage for purposes of applying the REIT asset and income tests. For these purposes, under current Treasury regulations our interest in each of the partnerships must be determined in accordance with our capital interest in each entity, as applicable.

We believe that Storage Trust Properties, L.P., PS Business Parks, L.P. and each of the partnerships and limited liability companies in which we own an interest, directly or through another partnership or limited liability company, will be treated as partnerships or disregarded for federal income tax purposes and will not be taxable as corporations. If any of these entities were treated as a corporation, it would be subject to an entity level tax on its income and we could fail to meet the REIT income and asset tests. See Income Tests Applicable to REITs and Asset Tests Applicable to REITs below.

Income Tests Applicable to REITs. To qualify as a REIT, we must satisfy two gross income tests which are applied on an annual basis. First, in each taxable year we must derive directly or indirectly at least 75% of our gross income, excluding gross income from prohibited transactions, from investments relating to real property or mortgages on real property or from some types of temporary investments. Income from investments relating to real property or mortgages on related property includes rents from real property, gains on the disposition of real estate, dividends paid by another REIT and interest on obligations secured by mortgages on real property or on interests in real property. Second, in each taxable year we must derive at least 95% of our gross income,

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excluding gross income from prohibited transactions, from any combination of income qualifying under the 75% test and dividends, interest, and gain from the sale or disposition of stock or securities.

Rents we receive will qualify as rents from real property for the purpose of satisfying the gross income requirements for a REIT described above only if several conditions are met:

The amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount we receive or accrue generally will not be excluded from the term rents from real property solely by reason of being based on a fixed percentage or percentages of gross receipts or sales;

We, or an actual or constructive owner of 10% or more of our shares, must not actually or constructively own 10% or more of the interests in the tenant, or, if the tenant is a corporation, 10% or more of the voting power or value of all classes of stock of the tenant. Rents received from such a tenant that is a taxable REIT subsidiary, however, will not be excluded from the definition of rents from real property as a result of this condition if either (i) at least 90% of the space at the property to which the rents relate is leased to third parties, and the rents paid by the taxable REIT subsidiary are comparable to rents paid by our other tenants for comparable space or (ii) the property is a qualified lodging property and such property is operated on behalf of the taxable REIT subsidiary by a person who is an independent contractor and certain other requirements are met;

Rent attributable to personal property, leased in connection with a lease of real property, is not greater than 15% of the total rent received under the lease. If this requirement is not met, then the portion of rent attributable to personal property will not qualify as rents from real property; and

We generally must not provide directly impermissible tenant services to the tenants of a property, subject to a 1% de minimis exception, other than through an independent contractor from whom we derive no income or a taxable REIT subsidiary. We may, however, directly perform certain services that are usually or customarily rendered in connection with the rental of space for occupancy only and are not otherwise considered rendered primarily for the convenience of the tenant of the property. Examples of such services include the provision of light, heat, or other utilities, trash removal and general maintenance of common areas. In addition, we may provide through an independent contractor or a taxable REIT subsidiary, which may be wholly or partially owned by us, both customary and non-customary services to our tenants without causing the rent we receive from those tenants to fail to qualify as rents from real property. If the total amount of income we receive from providing impermissible tenant services at a property exceeds 1% of our total income from that property, then all of the income from that property will fail to qualify as rents from real property. Impermissible tenant service income is deemed to be at least 150% of our direct cost in providing the service.

In light of these requirements, we do not intend to take any of the actions listed below, unless we determine that the resulting nonqualifying income, taken together with all other nonqualifying income that we earn in the taxable year, will not jeopardize our status as a REIT:

- (1) charge rent for any property that is based in whole or in part on the income or profits of any person (unless based on a fixed percentage or percentages of gross receipts or sales, as permitted and described above);
- (2) rent any property to a related party tenant, including a taxable REIT subsidiary, unless the rent from the lease to the taxable REIT subsidiary would qualify for the special exception from the related party tenant rule applicable to certain leases with a taxable REIT subsidiary;
- (3) derive rental income attributable to personal property other than personal property leased in connection with the lease of real property, the amount of which is less than 15% of the total rent received under the lease; or
- (4) directly perform services considered to be noncustomary or rendered to the occupant of the property.

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In connection with our merger with Public Storage Management, Public Storage and the various other owners of self-storage facilities and business parks for which we performed management activities entered into an agreement with PSCC, Inc. under which PSCC provides the owners and Public Storage certain administrative and cost-sharing services in connection with the operation of the properties and the performance of certain administrative functions. The services include the provision of corporate office space and certain equipment, personnel required for the operation and maintenance of the properties, and corporate or partnership administration. Each of the owners and Public Storage pay PSCC directly for services rendered by PSCC in connection with the administrative and cost sharing agreement. That payment is separate from and in addition to the compensation paid to Public Storage under the management agreements for the management of the properties owned by the owners. At the time of the merger with Public Storage Management, we received a private letter ruling from the IRS to the effect that the reimbursements and other payments made to PSCC by the owners would not be treated as our revenues for purposes of the 95% gross income test, and to the effect that our income from self-storage facility rentals generally would qualify as rent from real property for purposes of the REIT gross income tests. We subsequently received a private letter ruling indicating that the truck rental activities of an affiliated corporation (PS Orangeco, Inc., now a taxable REIT subsidiary of Public Storage) would not adversely affect the treatment of our income from self-storage facility rentals as rent from real property for purposes of the REIT gross income tests.

We now own directly and indirectly all of Pickup & Delivery (the portable self-storage business). The income from that business would be nonqualifying income to us and the business is conducted by a limited partnership between Public Storage and a subsidiary of PS Orangeco, Inc. The share of gross income of that business attributable to our direct partnership interest, when combined with our other nonqualifying income, must be less than 5% of our total gross income. While we have earned and will continue to earn some nonqualifying income from this and other sources, we anticipate that we will be able to continue to satisfy both the 75% and 95% gross income tests.

The ownership of certain partnership interests creates several issues regarding our satisfaction of the 95% gross income test. First, we earn property management fees from these partnerships. Existing Treasury regulations do not address the treatment of management fees derived by a REIT from a partnership in which the REIT holds a partnership interest, but the IRS has issued a number of private letter rulings holding that the portion of the management fee that corresponds to the REIT's interest in the partnership in effect is disregarded in applying the 95% gross income test when the REIT holds a substantial interest in the partnership. We disregard the portion of management fees derived from partnerships in which we are a partner that corresponds to our interest in these partnerships in determining the amount of our nonqualifying income. There can be no assurance, however, that the IRS would not take a contrary position with respect to Public Storage, either rejecting the approach set forth in the private letter rulings mentioned above or contending that our situation is distinguishable from those addressed in the private letter rulings (for example, arguing that we do not have a substantial interest in the partnerships).

In addition, we acquired interests in certain of these partnerships that entitle us to a percentage of profits (either from operations, or upon a sale, or both) in excess of the percentage of total capital originally contributed to the partnership with respect to such interest. Existing Treasury regulations do not specifically address how our capital interest in partnerships of this type should be determined. This determination is relevant because it affects both the percentage of the gross rental income of the partnership that is considered gross rental income (or qualifying income) to us and the percentage of the management fees paid to us that is disregarded in determining our nonqualifying income. For example, if we take the position that we have a 25% capital interest in a partnership (because we would receive 25% of the partnership's assets upon a sale and liquidation) but the IRS determines we only have a 1% capital interest (because the original holder of our interest only contributed 1% of the total capital contributed to the partnership), our share of the qualifying income from the partnership would be reduced and the portion of the management fee from the partnership that would be treated as nonqualifying income would be increased, both of which would adversely affect our ability to satisfy the 75% and 95% gross income tests. In determining our capital interest in the various partnerships, we estimate the percentage of the

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partnership's assets that would be distributed to us if those assets were sold and distributed among the partners in accordance with the applicable provisions of the partnership agreements. There can be no assurance, however, that the IRS will agree with this methodology and not contend that another, perhaps less favorable, method must be used for purposes of determining our capital interests, which could adversely affect our ability to satisfy the 75% and 95% gross income tests.

Moreover, in connection with the Shurgard merger, we have acquired indirect equity interests in real estate located outside of the United States, and Public Storage may acquire additional interests in non-U.S. properties both directly and through equity interests in partnerships, joint ventures, or other legal entities that have invested in real estate. These investments carry risks and uncertainties with respect to our status as a REIT that are not present when we invest directly in real estate in the U.S. and against which we may not be able to protect.

Interest income that depends in whole or in part on the income or profits of any person generally will be non-qualifying income for purposes of the 75% or 95% gross income tests. However, interest based on a fixed percentage or percentages of gross receipts or sales may still qualify under the gross income tests. We do not expect to derive significant amounts of interest that would fail to qualify under the 75% and 95% gross income tests.

Our share of any dividends received from our corporate subsidiaries that are not qualified REIT subsidiaries (and from other corporations in which we own an interest) will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. We do not anticipate that we will receive sufficient dividends to cause us to exceed the limit on nonqualifying income under the 75% gross income test. Dividends that we receive from other qualifying REITs will qualify for purposes of both REIT income tests.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we are entitled to relief under the Code. These relief provisions generally will be available if our failure to meet the tests is due to reasonable cause and not due to willful neglect, and we disclose to the IRS the sources of our income as required by the Code and applicable regulations. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. For example, if we fail to satisfy the gross income tests because nonqualifying income that we intentionally incur exceeds the limits on nonqualifying income, the IRS could conclude that the failure to satisfy the tests was not due to reasonable cause. If these relief provisions are inapplicable to a particular set of circumstances, we will fail to qualify as a REIT. As discussed under Taxation of Public Storage as a REIT General even if these relief provisions apply, a tax would be imposed based on the amount of nonqualifying income.

Prohibited Transaction Income. Any gain that we realize on the sale of any property held as inventory or otherwise held primarily for sale to tenants in the ordinary course of business, including our share of any such gain realized through our subsidiary partnerships and disregarded entities for federal income tax purposes, will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Under existing law, whether property is held as inventory or primarily for sale to tenants in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. However, we will not be treated as a dealer in real property with respect to a property we sell for the purposes of the 100% tax if (i) we have held the property for at least four years for the production of rental income prior to the sale, (ii) capitalized expenditures on the property in the four years preceding the sale are less than 30% of the net selling price of the property, and (iii) we either (a) have seven or fewer sales of property (excluding certain property obtained through foreclosure) for the year of sale or (b) the aggregate tax basis of property sold during the year of sale is 10% or less of the aggregate tax basis of all of our assets as of the beginning of the taxable year.

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and substantially all of the marketing and development expenditures with respect to the property sold are made through an independent contractor from whom we derive no income. The sale of more than one property to one buyer as part of one transaction constitutes one sale for purposes of this safe harbor. We intend to hold our facilities for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning our facilities and to make occasional sales of facilities as are consistent with our investment objectives. However, the IRS may successfully contend that some or all of the sales made by us are prohibited transactions. In that case, we would be required to pay the 100% penalty tax on our allocable share of the gains resulting from any such sales.

Penalty Tax. Any redetermined rents, redetermined deductions or excess interest we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of services furnished by one of our taxable REIT subsidiaries to any of our tenants, and redetermined deductions and excess interest represent amounts that are deducted by a taxable REIT subsidiary for payments to us that are in excess of the amounts that would have been deducted based on arm's-length negotiations. Rents we receive will not constitute redetermined rents if they qualify for the safe harbor provisions contained in the Code. Safe harbor provisions are provided where:

amounts are excluded from the definition of impermissible tenant service income as a result of satisfying the 1% de minimis exception;

a taxable REIT subsidiary renders a significant amount of similar services to unrelated parties and the charges for such services are substantially comparable;

rents paid to us by tenants who are not receiving services from the taxable REIT subsidiary are substantially comparable to the rents paid by our tenants leasing comparable space who are receiving services from the taxable REIT subsidiary and the charge for the services is separately stated; or

the taxable REIT subsidiary's gross income from the service is not less than 150% of the taxable REIT subsidiary's direct cost of furnishing the service.

While we anticipate that any fees paid to a taxable REIT subsidiary for tenant services will reflect arm's-length rates, a taxable REIT subsidiary may under certain circumstances provide tenant services which do not satisfy any of the safe-harbor provisions described above. Nevertheless, these determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion, we would be required to pay a 100% penalty tax on the redetermined rent, redetermined deductions or excess interest, as applicable.

Asset Tests Applicable to REITs. At the close of each quarter of our taxable year, we must satisfy four tests relating to the nature and diversification of our assets:

(1) At least 75% of the value of our total assets must be represented by real estate assets, cash, cash items and government securities. For purposes of this test, real estate assets include our allocable share of real estate assets held by entities that are treated as partnerships or that are disregarded for federal income tax purposes, as well as stock or debt instruments that are purchased with the proceeds of an offering of shares or a public offering of debt with a term of at least five years, but only for the one-year period beginning on the date we receive such proceeds.

(2) Not more than 25% of our total assets may be represented by securities, other than those securities includable in the 75% asset class (e.g., securities that qualify as real estate assets and government securities);

(3) Except for equity investments in REITs, debt or equity investments in qualified REIT subsidiaries and taxable REIT subsidiaries, and other securities that qualify as real estate assets for purpose of the 75% test described in clause (1):

the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets;

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we may not own more than 10% of any one issuer's outstanding voting securities; and

we may not own more than 10% of the total value of the outstanding securities of any one issuer, other than securities that qualify for the straight debt exception discussed below; and

(4) Not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries.

Securities for purposes of the asset tests may include debt securities. However, the Code specifically provides that the following types of debt will not be taken into account for purposes of the 10% value test: (1) securities that meet the straight debt safe-harbor, as discussed in the next paragraph; (2) loans to individuals or estates; (3) obligations to pay rent from real property; (4) rental agreements described in Section 467 of the Code; (5) any security issued by other REITs; (6) certain securities issued by a state, the District of Columbia, a foreign government, or a political subdivision of any of the foregoing, or the Commonwealth of Puerto Rico; and (7) any other arrangement as determined by the IRS. In addition, for purposes of the 10% value test only, to the extent we hold debt securities that are not described in the preceding sentence, (a) debt issued by partnerships that derive at least 75% of their gross income from sources that constitute qualifying income for purposes of the 75% gross income test, and (b) debt that is issued by any partnership, to the extent of our interest as a partner in the partnership, are not considered securities.

Debt will meet the straight debt safe harbor if (1) neither we, nor any of our controlled taxable REIT subsidiaries (i.e., taxable REIT subsidiaries more than 50% of the vote or value of the outstanding stock of which is directly or indirectly owned by us), own any securities not described in the preceding paragraph that have an aggregate value greater than one percent of the issuer's outstanding securities, as calculated under the Code, (2) the debt is a written unconditional promise to pay on demand or on a specified date a sum certain in money, (3) the debt is not convertible, directly or indirectly, into stock, and (4) the interest rate and the interest payment dates of the debt are not contingent on the profits, the borrower's discretion or similar factors. However, contingencies regarding time of payment and interest are permissible for purposes of qualifying as a straight debt security if either (1) such contingency does not have the effect of changing the effective yield of maturity, as determined under the Code, other than a change in the annual yield to maturity that does not exceed the greater of (i) 5% of the annual yield to maturity or (ii) 0.25%, or (2) neither the aggregate issue price nor the aggregate face amount of the issuer's debt instruments held by the REIT exceeds \$1,000,000 and not more than 12 months of unaccrued interest can be required to be prepaid thereunder. In addition, debt will not be disqualified from being treated as straight debt solely because the time or amount of payment is subject to a contingency upon a default or the exercise of a prepayment right by the issuer of the debt, provided that such contingency is consistent with customary commercial practice.

We currently own approximately 25% of the outstanding common stock of PS Business Parks, Inc., which has elected to be taxed as a REIT for federal income tax purposes (as well as a substantial portion of the outstanding common units of limited partnership interest of PS Business Parks, L.P., which may be exchangeable for shares of PS Business Parks, Inc.'s common stock). As a REIT, PS Business Parks, Inc. is subject to the various REIT qualification requirements. We believe that PS Business Parks, Inc. has been organized and has operated in a manner to qualify for taxation as a REIT for federal income tax purposes and will continue to be organized and operated in this manner. If PS Business Parks, Inc. were to fail to qualify as a REIT, our stock investment in PS Business Parks, Inc. would cease to be a qualifying real estate asset for purposes of the 75% gross asset test and would become subject to the 5% asset test, the 10% voting stock limitation, and the 10% value limitation generally applicable to our ownership in corporations (other than REITs, qualified REIT subsidiaries and taxable REIT subsidiaries). If PS Business Parks, Inc. failed to qualify as a REIT, we would not meet the 10% voting securities limitation and the 10% value limitation with respect to our interest in PS Business Parks, Inc., and accordingly, we also would fail to qualify as a REIT.

We believe that the aggregate value of our interests in our taxable REIT subsidiaries does not exceed, and in the future will not exceed, 20% of the aggregate value of our gross assets. As of each relevant testing date prior to the election to treat each corporate subsidiary of Public Storage or any other corporation in which we own an

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interest as a taxable REIT subsidiary, we believe we did not own more than 10% of the voting securities of any such entity. In addition, we believe that as of each relevant testing date prior to the election to treat each corporate subsidiary of Public Storage or any other corporation in which we own an interest as a taxable REIT subsidiary of Public Storage, our pro rata share of the value of the securities, including debt, of any such corporation or other issuer did not exceed 5% of the total value of our assets.

With respect to each issuer in which we currently own an interest that does not qualify as a REIT, a qualified REIT subsidiary or a taxable REIT subsidiary, we believe that our pro rata share of the value of the securities, including debt, of any such issuer does not exceed 5% of the total value of our assets and that it complies with the 10% voting securities limitation and 10% value limitation with respect to each such issuer. However, no independent appraisals have been obtained to support these conclusions. In this regard, however, we cannot provide any assurance that the IRS might not disagree with our determinations.

The asset tests must be satisfied not only on the last day of the calendar quarter in which we, directly or through pass-through subsidiaries, acquire securities in the applicable issuer, but also on the last day of the calendar quarter in which we increase our ownership of securities of such issuer, including as a result of increasing our interest in pass-through subsidiaries. After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the 25%, 20% or 5% asset tests solely by reason of changes in the relative values of our assets. If failure to satisfy the 25%, 20% or 5% asset tests results from an acquisition of securities or other property during a quarter, we can cure this failure by disposing of sufficient non-qualifying assets within 30 days after the close of that quarter. We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take any available action within 30 days after the close of any quarter as may be required to cure any noncompliance with the 25%, 20% or 5% asset tests. Although we plan to take steps to ensure that we satisfy such tests for any quarter with respect to which testing is to occur, there can be no assurance that such steps will always be successful. If we fail to timely cure any noncompliance with the asset tests, we would cease to qualify as a REIT, unless we satisfy certain relief provisions described in the next paragraph.

Furthermore, for our 2005 and subsequent taxable years, the failure to satisfy the asset tests can be remedied even after the 30-day cure period under certain circumstances. If the total value of the assets that caused a failure of the 5% asset test, the 10% voting securities test or the 10% value test does not exceed either 1% of our assets at the end of the relevant quarter or \$10,000,000, we can cure such a failure by disposing of sufficient assets to cure such a violation within six months following the last day of the quarter in which we first identify the failure of the asset test. For a violation of any of the asset tests not described in the prior sentence (including the 75%, 25% and the 20% asset tests), we can avoid disqualification as a REIT if the violation is due to reasonable cause and we dispose of an amount of assets sufficient to cure such violation within the six-month period described in the preceding sentence, pay a tax equal to the greater of \$50,000 or the highest corporate tax rate multiplied by the net income generated by the nonqualifying assets during the period of time that the assets were held as nonqualifying assets, and file in accordance with applicable Treasury regulations a schedule with the IRS that describes the assets. The applicable Treasury regulations are yet to be issued. Thus, it is not possible to state with precision under what circumstances we would be entitled to the benefit of these provisions.

Annual Distribution Requirements Applicable to REITs. To qualify as a REIT, we are required to distribute dividends, other than capital gain dividends, to our shareholders each year in an amount at least equal to the sum of:

90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gain; and

90% of our after tax net income, if any, from foreclosure property; *minus*

the excess of the sum of certain items of non-cash income over 5% of our REIT taxable income.

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In addition, for purposes of this test, non-cash income means income attributable to leveled stepped rents, original issue discount included in our taxable income without the receipt of a corresponding payment, cancellation of indebtedness or a like-kind exchange that is later determined to be taxable. We must pay these distributions in the taxable year to which they relate, or in the following taxable year if they are declared during the last three months of the taxable year, payable to shareholders of record on a specified date during such period and paid during January of the following year. Such distributions are treated as paid by us and received by our shareholders on December 31 of the year in which they are declared. In addition, at our election, a distribution for a taxable year may be declared before we timely file our tax return for such year and paid on or before the first regular dividend payment date after such declaration, provided such payment is made during the twelve-month period following the close of such year. These distributions are taxable to our shareholders, other than tax-exempt entities, in the year in which paid. This is so even though these distributions relate to the prior year for purposes of our 90% distribution requirement. The amount distributed must not be preferential i.e., every shareholder of the class of shares with respect to which a distribution is made must be treated the same as every other shareholder of that class, and no class of shares may be treated otherwise than in accordance with its dividend rights as a class. To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our REIT taxable income, as adjusted, we will be required to pay tax on that amount at regular corporate tax rates. We intend to make timely distributions sufficient to satisfy these annual distribution requirements.

In years prior to 1990, we made distributions in excess of our REIT taxable income. During 1990, we reduced the level of distributions to our shareholders. As a result, distributions paid by us in 1990 were less than 95% of our REIT taxable income for 1990. The same circumstance has existed with respect to each year through 2003. We have satisfied the REIT distribution requirements for 1990 through 2003 by attributing distributions in 1991 through 2004 to the prior year's taxable income. We may be required to continue this pattern of making distributions after the close of a taxable year that are attributed to the prior year for this purpose, but shareholders will be treated for federal income tax purposes as having received such distributions in the taxable years in which they actually are made. The extent to which we will be required to attribute distributions to the prior year will depend on our operating results and the level of distributions as determined by the board of directors. As noted below, reliance on subsequent year distributions could cause us to be subject to an excise tax, although we intend to comply with the 85% current distribution requirement under the excise tax in an effort to avoid or minimize any effect of that tax.

We intend to make timely distributions sufficient to satisfy our annual distribution requirements. Although we anticipate that our cash flow will permit us to make those distributions, it is possible that, from time to time, we may not have sufficient cash or other liquid assets to meet these distribution requirements. In this event, we may find it necessary to arrange for short-term, or possibly long-term, borrowings to fund required distributions or to pay dividends in the form of taxable dividends of our shares.

Under some circumstances, we may be able to rectify an inadvertent failure to meet the distribution requirement for a year by paying deficiency dividends to our shareholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends. However, we will be required to pay interest to the IRS based upon the amount of any deduction claimed for deficiency dividends.

Furthermore, we will be required to pay a 4% nondeductible excise tax to the extent we fail to distribute during each calendar year, or in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January following such calendar year, at least the sum of:

85% of our REIT ordinary income for such year;

95% of our REIT capital gain net income for the year; and

any undistributed taxable income from prior taxable years.

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Any REIT taxable income and net capital gain on which this excise tax is imposed for any year is treated as an amount distributed during that year for purposes of calculating such tax and excess distributions from the immediately preceding year may be carried over.

A REIT may elect to retain rather than distribute all or a portion of its net capital gains and pay the tax on the gains. In that case, a REIT may elect to have its shareholders include their proportionate share of the undistributed net capital gains in income as long-term capital gains and receive a credit for their share of the tax paid by the REIT. For purposes of the 4% excise tax described above, any retained amounts would be treated as having been distributed.

Record-Keeping Requirements. We are required to comply with applicable record-keeping requirements. Failure to comply could result in monetary fines.

Failure of Public Storage to Qualify as a REIT. If we fail to comply with one or more of the conditions required for qualification as a REIT (other than asset tests and the income tests that have the specific savings clauses discussed above in *Asset Tests Applicable to REITs*, and *Income Tests Applicable to REITs*), we can avoid termination of our REIT status by paying a penalty of \$50,000 for each such failure, provided that our noncompliance was due to reasonable cause and not willful neglect. If we fail to qualify for taxation as a REIT in any taxable year and the statutory relief provisions do not apply, we will be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Distributions to shareholders in any year in which we fail to qualify will not be deductible by us, and we will not be required to distribute any amounts to our shareholders. As a result, our failure to qualify as a REIT would significantly reduce the cash available for distribution by us to our shareholders. In addition, if we fail to qualify as a REIT, all distributions to shareholders will be taxable as dividends to the extent of our current and accumulated earnings and profits, whether or not attributable to capital gains earned by us. Non-corporate shareholders currently would be taxed on these dividends at capital gains rates; corporate shareholders may be eligible for the dividends received deduction with respect to such dividends. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year during which we lost our qualification. There can be no assurance that we would be entitled to any statutory relief.

Tax Liabilities Inherited from Shurgard. In connection with the Shurgard merger, our indirect subsidiary (*Merger Sub*) succeeded to the tax and other liabilities of Shurgard. If Shurgard failed to qualify as a real estate investment trust in any taxable year, it would have been subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Unless statutory relief provisions apply, Shurgard would have been disqualified from treatment as a real estate investment trust for the four taxable years following the year during which it lost qualification. Merger Sub, as successor to Shurgard, would be required to pay this tax. As is the case with Public Storage, qualification as a real estate investment trust required Shurgard to satisfy numerous requirements, some on an annual basis, others on a quarterly basis and still others on an ongoing basis, established under highly technical and complex Code provisions. As a condition to closing, tax counsel to Shurgard rendered an opinion relating to Shurgard's REIT status and related tax matters.

If Shurgard were not to have qualified as a REIT at the time of the merger, Shurgard would have incurred a Federal corporate income tax liability in connection with the merger, which would have been treated as a taxable asset sale by Shurgard for Federal income tax purposes. The resulting gain subject to tax would have been equal to the excess of the value of the merger consideration and the Shurgard liabilities assumed by Merger Sub at the time of the merger over Shurgard's adjusted tax basis in its assets at that time. Merger Sub, as the successor to Shurgard, would be obligated to pay this tax.

In addition, if Shurgard did not qualify as a REIT at any time during the 10 years preceding the Shurgard merger, even if it qualified as a REIT at the time of the merger, Shurgard would incur a Federal corporate income tax liability on an amount equal to the built-in gain that existed with respect to its assets at the time it requalified as a REIT prior to the merger. Again, Merger Sub, as the successor to Shurgard, would be obligated to pay this tax.

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Taxation of U.S. Shareholders

As used in the remainder of this discussion, the term **U.S. shareholder** means a beneficial owner of a Public Storage common share that is, for U.S. federal income tax purposes:

a citizen or resident, as defined in Section 7701(b) of the Code, of the United States;

a corporation, partnership, limited liability company or other entity treated as a corporation or partnership for U.S. federal income tax purposes that was created or organized in or under the laws of the United States or of any State thereof or in the District of Columbia unless, in the case of a partnership or limited liability company, Treasury regulations provide otherwise;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

in general, a trust whose administration is subject to the primary supervision of a United States court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in the Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to this date that elect to continue to be treated as United States persons, shall also be considered U.S. shareholders.

If you hold our common shares and are not a U.S. shareholder, you are a **non-U.S. shareholder**. If a partnership holds our common shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares, you should consult your tax advisor regarding the tax consequences of the ownership and disposition of our common shares.

Distributions by Public Storage General. As long as we qualify as a REIT, distributions out of our current or accumulated earnings and profits that are not designated as capital gains dividends or **qualified dividend income** will be taxable to our taxable U.S. shareholders as ordinary income and will not be eligible for the dividends-received deduction in the case of U.S. shareholders that are corporations. For purposes of determining whether distributions to holders of common shares or equity shares are out of current or accumulated earnings and profits, our earnings and profits will be allocated first to our outstanding preferred shares and then to our outstanding common shares and equity shares.

To the extent that we make distributions in excess of our current and accumulated earnings and profits, these distributions will be treated first as a tax-free return of capital to each U.S. shareholder. This treatment will reduce the adjusted tax basis that each U.S. shareholder has in its shares for tax purposes by the amount of the distribution, but not below zero. Distributions in excess of a U.S. shareholder's adjusted tax basis in its shares will be taxable as capital gains, provided that the shares have been held as a capital asset, and will be taxable as long-term capital gain if the shares have been held for more than one year. Dividends we declare in October, November, or December of any year and payable to a shareholder of record on a specified date in any of these months shall be treated as both paid by us and received by the shareholder on December 31 of that year, provided we actually pay the dividend on or before January 31 of the following calendar year.

Capital Gain Distributions. We may elect to designate distributions of our net capital gain as **capital gain dividends**. Distributions that we properly designate as **capital gain dividends** will be taxable to our taxable U.S. shareholders as gain from the sale or disposition of a capital asset to the extent that such gain does not exceed our actual net capital gain for the taxable year. Designations made by us will only be effective to the extent that they comply with Revenue Ruling 89-81, which requires that distributions made to different classes of shares be composed proportionately of dividends of a particular type. If we designate any portion of a dividend as a capital gain dividend, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the shareholder as capital gain. Corporate shareholders, however, may be required to treat up to 20% of some capital gain dividends as ordinary income.

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Instead of paying capital gain dividends, we may designate all or part of our net capital gain as undistributed capital gain. We will be subject to tax at regular corporate rates on any undistributed capital gain. A U.S. shareholder will include in its income as long-term capital gains its proportionate share of such undistributed capital gain and will be deemed to have paid its proportionate share of the tax paid by us on such undistributed capital gain and receive a credit or a refund to the extent that the tax paid by us exceeds the U.S. shareholder's tax liability on the undistributed capital gain. A U.S. shareholder will increase the basis in its common shares by the difference between the amount of capital gain included in its income and the amount of tax it is deemed to have paid. A U.S. shareholder that is a corporation will appropriately adjust its earnings and profits for the retained capital gain in accordance with Treasury regulations to be prescribed by the IRS. Our earnings and profits will be adjusted appropriately.

We will classify portions of any designated capital gain dividend or undistributed capital gain as either:

- (1) a 15% rate gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 15%; or
- (2) an unrecaptured Section 1250 gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 25%.

We must determine the maximum amounts that we may designate as 15% and 25% rate capital gain dividends by performing the computation required by the Code as if the REIT were an individual whose ordinary income were subject to a marginal tax rate of at least 28%.

Recipients of capital gain dividends from us that are taxed at corporate income tax rates will be taxed at the normal corporate income tax rates on those dividends.

Qualified Dividend Income. With respect to shareholders who are taxed at the rates applicable to individuals, we may elect to designate a portion of our distributions paid to shareholders as qualified dividend income. A portion of a distribution that is properly designated as qualified dividend income is taxable to non-corporate U.S. shareholders as capital gain, provided that the shareholder has held the common shares with respect to which the distribution is made for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which such common shares become ex-dividend with respect to the relevant distribution (or, in the case of preferred shares, for more than 90 days during the 181-day period beginning on the date that is 90 days before such ex-dividend date where the dividend is attributable to a period or periods aggregating in excess of 366 days). The maximum amount of our distributions eligible to be designated as qualified dividend income for a taxable year is equal to the sum of:

- (1) the qualified dividend income received by us during such taxable year from non-REIT C corporations (including our corporate subsidiaries, other than qualified REIT subsidiaries, and our taxable REIT subsidiaries);
- (2) the excess of any undistributed REIT taxable income recognized during the immediately preceding year over the federal income tax paid by us with respect to such undistributed REIT taxable income; and
- (3) the excess of any income recognized during the immediately preceding year attributable to the sale of a built-in-gain asset that was acquired in a carry-over basis transaction from a non-REIT C corporation over the federal income tax paid by us with respect to such built-in gain.

Generally, dividends that we receive will be treated as qualified dividend income for purposes of (1) above if the dividends are received from a domestic corporation (other than a REIT or a regulated investment company) or a qualified foreign corporation and specified holding period requirements and other requirements are met. A foreign corporation (other than a passive foreign investment company) will be a qualified foreign corporation if it is incorporated in a possession of the United States, the corporation is eligible for benefits of an income tax treaty with the United States that the Secretary of Treasury determines is satisfactory, or the stock of the foreign

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corporation on which the dividend is paid is readily tradable on an established securities market in the United States. We generally expect that an insignificant portion, if any, of our distributions will consist of qualified dividend income. If we designate any portion of a dividend as qualified dividend income, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the shareholder as qualified dividend income.

Sunset of Reduced Tax Rate Provisions. The applicable provisions of the federal income tax laws relating to the 15% rate of capital gain taxation and the applicability of capital gain rates for designated qualified dividend income of REITs are currently scheduled to sunset or revert back to provisions of prior law effective for taxable years beginning after December 31, 2010. Upon the sunset of the current provisions, all dividend income of REITs and non-REIT corporations would be taxable at ordinary income rates and the maximum capital gain tax rate for gains other than unrecaptured section 1250 gains would be increased (from 15% to 20%). The impact of this reversion is not discussed herein. Consequently, shareholders should consult their tax advisors regarding the effect of sunset provisions on an investment in common shares.

Other Tax Considerations. Distributions we make and gain arising from the sale or exchange by a U.S. shareholder of our shares will not be treated as passive activity income. As a result, U.S. shareholders generally will not be able to apply any passive losses against this income or gain. Distributions we make, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of computing the investment interest limitation. A U.S. shareholder may elect, depending on its particular situation, to treat capital gain dividends, capital gains from the disposition of shares and income designated as qualified dividend income as investment income for purposes of the investment interest limitation, in which case the applicable capital gains will be taxed at ordinary income rates. We will notify shareholders regarding the portions of our distributions for each year that constitute ordinary income, return of capital and qualified dividend income. U.S. shareholders may not include in their individual income tax returns any of our net operating losses or capital losses. Our operating or capital losses would be carried over by us for potential offset against future income, subject to applicable limitations.

Sales of Shares. If a U.S. shareholder sells or otherwise disposes of its shares in a taxable transaction, it will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale or other disposition and the holder's adjusted basis in the shares for tax purposes. This gain or loss will be a capital gain or loss if the shares have been held by the U.S. shareholder as a capital asset. The applicable tax rate will depend on the U.S. shareholder's holding period in the asset (generally, if an asset has been held for more than one year, such gain or loss will be long-term capital gain or loss) and the U.S. shareholder's tax bracket. A U.S. shareholder who is an individual or an estate or trust and who has long-term capital gain or loss will be subject to a maximum capital gain rate, which is currently 15%. The IRS has the authority to prescribe, but has not yet prescribed, regulations that would apply a capital gain tax rate of 25% (which is generally higher than the long-term capital gain tax rates for noncorporate shareholders) to a portion of capital gain realized by a noncorporate shareholder on the sale of REIT shares that would correspond to the REIT's unrecaptured Section 1250 gain. In general, any loss recognized by a U.S. shareholder upon the sale or other disposition of common shares that have been held for six months or less, after applying the holding period rules, will be treated by such U.S. shareholders as a long-term capital loss, to the extent of distributions received by the U.S. shareholder from us that were required to be treated as long-term capital gains. Shareholders are advised to consult their tax advisors with respect to the capital gain liability.

Taxation of Tax-Exempt Shareholders

Provided that a tax-exempt shareholder, except certain tax-exempt shareholders described below, has not held its common shares as debt financed property within the meaning of the Code and the shares are not otherwise used in its trade or business, the dividend income from us and gain from the sale of our common shares will not be unrelated business taxable income, or UBTI to a tax-exempt shareholder. Generally, debt financed

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property is property, the acquisition or holding of which was financed through a borrowing by the tax-exempt shareholder.

For tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, or qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) or (c)(20) of the Code, respectively, or single parent title-holding corporations exempt under Section 501(c)(2) and whose income is payable to any of the aforementioned tax-exempt organizations, income from an investment in Public Storage will constitute unrelated business taxable income unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its investment in our shares. These prospective investors should consult with their tax advisors concerning these set aside and reserve requirements.

Notwithstanding the above, however, a portion of the dividends paid by a pension-held REIT are treated as UBTI if received by any trust which is described in Section 401(a) of the Code, is tax-exempt under Section 501(a) of the Code and holds more than 10%, by value, of the interests in the REIT. A pension-held REIT includes any REIT if:

at least one of such trusts holds more than 25%, by value, of the interests in the REIT, or two or more of such trusts, each of which owns more than 10%, by value, of the interests in the REIT, hold in the aggregate more than 50%, by value, of the interests in the REIT; and

it would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Code provides that shares owned by such trusts shall be treated, for purposes of the not closely held requirement, as owned by the beneficiaries of the trust, rather than by the trust itself.

The percentage of any REIT dividend from a pension-held REIT that is treated as UBTI is equal to the ratio of the UBTI earned by the REIT, treating the REIT as if it were a pension trust and therefore subject to tax on UBTI, to the total gross income of the REIT. An exception applies where the percentage is less than 5% for any year, in which case none of the dividends would be treated as UBTI. The provisions requiring pension trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to satisfy the not closely held requirement without relying upon the look-through exception with respect to pension trusts. As a result of certain limitations on the transfer and ownership of our shares contained in our organizational documents, we do not expect to be classified as a pension-held REIT, and accordingly, the tax treatment described above should be inapplicable to our tax-exempt shareholders.

U.S. Taxation of Non-U.S. Shareholders

The following discussion addresses the rules governing U.S. federal income taxation of the ownership and disposition of our common shares by non-U.S. shareholders. These rules are complex, and no attempt is made herein to provide more than a brief summary of such rules. Accordingly, the discussion does not address all aspects of U.S. federal income taxation and does not address state, local or foreign tax consequences that may be relevant to a non-U.S. shareholder in light of its particular circumstances.

Distributions by Public Storage. As described in the discussion below, distributions paid by us with respect to our common shares will be treated for federal income tax purposes as either:

ordinary income dividends;

long-term capital gain; or

return of capital distributions.

This discussion assumes that our shares will continue to be considered regularly traded on an established securities market located in the U.S. for purposes of the FIRPTA provisions described below. If our shares are no longer regularly traded on an established securities market located in the U.S., the tax considerations described below would differ.

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Ordinary Income Dividends. A distribution paid by us to a non-U.S. shareholder will be treated as an ordinary income dividend if the distribution is paid out of our current or accumulated earnings and profits and:

the distribution is not attributable to our net capital gain; or

the distribution is attributable to our net capital gain from the sale of U.S. real property interests and the non-U.S. shareholder owns 5% or less of the value of the relevant class of shares at all times during the 1-year period ending on the date of the distribution.

Ordinary dividends that are effectively connected with a U.S. trade or business of the non-U.S. shareholder will be subject to tax on a net basis (that is, after allowance for deductions) at graduated rates in the same manner as U.S. shareholders (including any applicable alternative minimum tax).

Generally, we will withhold and remit to the IRS 30% of dividend distributions (including distributions that may later be determined to have been made in excess of current and accumulated earnings and profits) that could not be treated as capital gain distributions with respect to the non-U.S. shareholder (and that are not deemed to be capital gain dividends for purposes of the FIRPTA withholding rules described below) unless:

a lower treaty rate applies and the non-U.S. shareholder files an IRS Form W-8BEN evidencing eligibility for that reduced treaty rate with us; or

the non-U.S. shareholder files an IRS Form W-8ECI with us claiming that the distribution is income effectively connected with the non-U.S. shareholder's trade or business.

Return of Capital Distributions. A distribution in excess of our current and accumulated earnings and profits will be taxable to a non-U.S. shareholder, if at all, as gain from the sale of common shares to the extent that the distribution exceeds the non-U.S. shareholder's basis in its common shares. A distribution in excess of our current and accumulated earnings and profits will reduce the non-U.S. shareholder's basis in its common shares and will not be subject to U.S. federal income tax.

We may be required to withhold at least 10% of any distribution in excess of our current and accumulated earnings and profits, even if a lower treaty rate applies and the non-U.S. shareholder is not liable for tax on the receipt of that distribution. However, the non-U.S. shareholder may seek a refund of these amounts from the IRS if the non-U.S. shareholder's U.S. tax liability with respect to the distribution is less than the amount withheld.

Capital Gain Dividends. A distribution paid by us to a non-U.S. shareholder will be treated as long-term capital gain if the distribution is paid out of our current or accumulated earnings and profits and:

the distribution is attributable to our net capital gain (other than from the sale of U.S. real property interests) and we timely designate the distribution as a capital gain dividend; or

the distribution is attributable to our net capital gain from the sale of U.S. real property interests and the non-U.S. shareholder owns more than 5% of the value of the relevant class of shares at any point during the one-year period ending on the date of the distribution.

Due to recent amendments to the REIT taxation provisions in the Code, it is not entirely clear whether designated capital gain dividends described in the first bullet point above (that is, distributions attributable to net capital gain from sources other than the sale of U.S. real property interests) that are paid to non-U.S. shareholders who own less than 5% of the value of the relevant class of shares at all times during the one-year period ending on the date of the distribution will be treated as long-term capital gain to such non-U.S. shareholders. If we were to pay such a capital gain dividend, non-U.S. shareholders should consult their tax advisors regarding the taxation of such distribution. Long-term capital gain

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that a non-U.S. shareholder is deemed to receive from a capital gain dividend that is not attributable to the sale of U.S. real property interests generally will not be subject to U.S. tax in the hands of the non-U.S. shareholder unless:

the non-U.S. shareholder's investment in our common shares is effectively connected with a U.S. trade or business of the non-U.S. shareholder, in which case the non-U.S. shareholder will be subject to the

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same treatment as U.S. shareholders with respect to any gain, except that a non-U.S. shareholder that is a corporation also may be subject to the 30% branch profits tax; or

the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States in which case the nonresident alien individual will be subject to a 30% tax on his capital gains.

Under the Foreign Investment in Real Property Tax Act, referred to as FIRPTA, distributions that are attributable to net capital gain from the sales by us of U.S. real property interests and paid to a non-U.S. shareholder that owns more than 5% of the value of the relevant class of shares at any time during the one-year period ending on the date of the distribution will be subject to U.S. tax as income effectively connected with a U.S. trade or business. The FIRPTA tax will apply to these distributions whether or not the distribution is designated as a capital gain dividend.

Any distribution paid by us that is treated as a capital gain dividend or that could be treated as a capital gain dividend with respect to a particular non-U.S. shareholder that owns more than 5% of the value of the relevant class of shares at any time during the one-year period ending on the date of the distribution will be subject to special withholding rules under FIRPTA. We will be required to withhold and remit to the IRS 35% of any distribution that could be treated as a capital gain dividend with respect to the non-U.S. shareholder, whether or not the distribution is attributable to the sale by us of U.S. real property interests. The amount withheld is creditable against the non-U.S. shareholder's U.S. federal income tax liability or refundable when the non-U.S. shareholder properly and timely files a tax return with the IRS.

Undistributed Capital Gain. Although the law is not entirely clear on the matter, it appears that amounts designated by us as undistributed capital gains in respect of our shares held by non-U.S. shareholders generally should be treated in the same manner as actual distributions by us of capital gain dividends. Under that approach, the non-U.S. shareholder would be able to offset as a credit against their U.S. federal income tax liability resulting therefrom their proportionate share of the tax paid by us on the undistributed capital gains treated as long-term capital gain to the non-U.S. shareholder, and generally to receive from the IRS a refund to the extent their proportionate share of the tax paid by us were to exceed the non-U.S. shareholder's actual U.S. federal income tax liability on such long-term capital gain. If we were to designate any portion of our net capital gain as undistributed capital gain, a non-U.S. shareholder should consult its tax advisor regarding the taxation of such undistributed capital gain.

Sale of Common Shares. Gain recognized by a non-U.S. shareholder upon the sale or exchange of our common shares generally would not be subject to U.S. taxation unless:

- (1) the investment in our common shares is effectively connected with the non-U.S. shareholder's United States trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as domestic shareholders with respect to any gain;
- (2) the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual's net capital gains from United States sources for the taxable year; or
- (3) our common shares constitute a U.S. real property interest within the meaning of FIRPTA, as described below.

Our common shares will not constitute a U.S. real property interest if we are a domestically controlled REIT. We will be a domestically controlled REIT if, at all times during a specified testing period, less than 50% in value of our common shares is held directly or indirectly by non-U.S. shareholders.

We believe that we will be a domestically controlled REIT and, therefore, that the sale of our common shares by a non-U.S. shareholder would not be subject to taxation under FIRPTA. Because our common shares are publicly traded, however, we cannot guarantee that we are or will continue to be a domestically controlled REIT.

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Even if we do not qualify as a domestically controlled REIT at the time a non-U.S. shareholder sells our common shares, gain arising from the sale still would not be subject to FIRPTA tax if:

- (1) the class or series of shares sold is considered regularly traded under applicable Treasury regulations on an established securities market, such as the New York Stock Exchange; and
- (2) the selling non-U.S. shareholder owned, actually or constructively, 5% or less in value of the outstanding class or series of shares being sold throughout the shorter of the period during which the non-U.S. shareholders held such class or series of shares or the five-year period ending on the date of the sale or exchange.

If gain on the sale or exchange of our common shares by a non-U.S. shareholder were subject to taxation under FIRPTA, the non-U.S. shareholder would be subject to regular U.S. federal income tax with respect to any gain on a net basis in the same manner as a taxable U.S. shareholder, subject to any applicable alternative minimum tax and special alternative minimum tax in the case of nonresident alien individuals.

Information Reporting and Backup Withholding Tax Applicable to Shareholders

U.S. Shareholders. In general, information-reporting requirements will apply to payments of distributions on our common shares and payments of the proceeds of the sale of our common shares to some U.S. shareholders, unless an exception applies. Further, the payer will be required to withhold backup withholding tax on such payments at the rate of 28% if:

- (1) the payee fails to furnish a taxpayer identification number, or TIN, to the payer or to establish an exemption from backup withholding;
- (2) the IRS notifies the payer that the TIN furnished by the payee is incorrect;
- (3) there has been a notified payee under-reporting with respect to interest, dividends or original issue discount described in Section 3406(c) of the Code; or
- (4) there has been a failure of the payee to certify under the penalty of perjury that the payee is not subject to backup withholding under the Code.

Some shareholders, including corporations, may be exempt from backup withholding. Any amounts withheld under the backup withholding rules from a payment to a shareholder will be allowed as a credit against the shareholder's U.S. federal income tax liability and may entitle the shareholder to a refund, provided that the required information is furnished to the IRS.

Non-U.S. Shareholders. Generally, information reporting will apply to payments of distributions on our common shares, and backup withholding described above for a U.S. shareholder will apply, unless the payee certifies that it is not a U.S. person or otherwise establishes an exemption.

The payment of the proceeds from the disposition of our common shares to or through the United States office of a United States or foreign broker will be subject to information reporting and, possibly, backup withholding as described above for U.S. shareholders, or the withholding tax for non-U.S. shareholders, as applicable, unless the non-U.S. shareholder certifies as to its non-U.S. status or otherwise establishes an exemption, provided that the broker does not have actual knowledge that the shareholder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The proceeds of the disposition by a non-U.S. shareholder of our common shares to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for United States tax purposes, or a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, a foreign partnership 50% or more of whose interests are held by partners who are U.S. persons, or a foreign partnership that is engaged in the conduct of a trade or business in the United States, then information reporting generally will apply as though the payment was made

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through a U.S. office of a United States or foreign broker unless the broker has documentary evidence as to the non-U.S. shareholder's foreign status and has no actual knowledge to the contrary.

Applicable Treasury regulations provide presumptions regarding the status of shareholders when payments to the shareholders cannot be reliably associated with appropriate documentation provided to the payer. If a non-U.S. shareholder fails to comply with the information reporting requirement, payments to such person may be subject to the full withholding tax even if such person might have been eligible for a reduced rate of withholding or no withholding under an applicable income tax treaty. Because the application of these Treasury regulations varies depending on the shareholder's particular circumstances, you are urged to consult your tax advisor regarding the information reporting requirements applicable to you.

Backup withholding is not an additional tax. Any amounts that we withhold under the backup withholding rules will be refunded or credited against the non-U.S. shareholder's federal income tax liability if certain required information is furnished to the IRS. Non-U.S. shareholders should consult with their tax advisors regarding application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury regulations.

Other Tax Consequences for Public Storage and Our Shareholders

We may be required to pay tax in various state or local jurisdictions, including those in which we transact business, and our shareholders may be required to pay tax in various state or local jurisdictions, including those in which they reside. Our state and local tax treatment may not conform to the federal income tax consequences discussed above. In addition, a shareholder's state and local tax treatment may not conform to the federal income tax consequences discussed above. Consequently, prospective investors should consult with their tax advisors regarding the effect of state and local tax laws on an investment in our common shares.

A portion of our income is earned through our taxable REIT subsidiaries. The taxable REIT subsidiaries are subject to federal, state and local income tax at the full applicable corporate rates. In addition, a taxable REIT subsidiary will be limited in its ability to deduct interest payments in excess of a certain amount made directly or indirectly to us. To the extent that our taxable REIT subsidiaries and we are required to pay federal, state or local taxes, we will have less cash available for distribution to shareholders.

Tax Shelter Reporting

If a holder recognizes a loss as a result of a transaction with respect to our shares of at least (i) for a holder that is an individual, S corporation, trust or a partnership with at least one noncorporate partner, \$2 million or more in a single taxable year or \$4 million or more in a combination of taxable years, or (ii) for a holder that is either a corporation or a partnership with only corporate partners, \$10 million or more in a single taxable year or \$20 million or more in a combination of taxable years, such holder may be required to file a disclosure statement with the IRS on Form 8886. Direct shareholders of portfolio securities are in many cases exempt from this reporting requirement, but shareholders of a REIT currently are not excepted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

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LEGAL OPINIONS

In connection with particular offerings of the securities in the future, and if stated in the applicable prospectus supplement, the validity of those securities and certain U.S. federal income tax matters may be passed upon for us by Hogan & Hartson L.L.P., and for the underwriters or agents by counsel named in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements of Public Storage appearing in Public Storage's Annual Report (Form 10-K) for the year ended December 31, 2006 (including schedules appearing therein) and Public Storage's management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 included in Public Storage, Inc.'s Form 10-K/A, which did not include an evaluation of the internal control over financial reporting of Shurgard Self Storage SCA and subsidiaries, have been audited by Ernst & Young L.L.P., independent registered public accounting firm, as set forth in its reports thereon, which as to the report on internal control over financial reporting contains an explanatory paragraph describing the above referenced exclusion of Shurgard Self Storage SCA and subsidiaries from the scope of management's assessment and such firm's audit of internal control over financial reporting included therein, and incorporated therein by reference. Such consolidated financial statements and management's assessment have been incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Shurgard Storage Centers, Inc. as of December 31, 2005 and December 31, 2004 and for each of the three fiscal years in the period ended December 31, 2005 and Shurgard management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of December 31, 2005 included in this prospectus have been so included in reliance upon the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

The consolidated balance sheets of Shurgard Self Storage S.C.A. as of December 31, 2003, 2002, and 2001 and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of three years in the period ended December 31, 2003, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report (including explanatory paragraphs for a change in the method of accounting for derivatives and goodwill, as well as the effects of the restatement), which is included in this prospectus, and have been so included in reliance upon the report of such firm given on their authority as experts in accounting and auditing.

SHURGARD'S MANAGEMENT'S REPORT ON

INTERNAL CONTROL OVER FINANCIAL REPORTING

Shurgard's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Shurgard's management has assessed the effectiveness of Shurgard's internal control over financial reporting as of December 31, 2005, using the criteria described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (or the COSO criteria). Based on its assessment, Shurgard's management has concluded, as of December 31, 2005, Shurgard maintained effective internal control over financial reporting.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited Shurgard's management's assessment of the effectiveness of Shurgard's internal control over financial reporting as of December 31, 2005, as stated in their report, which appears herein.

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SHURGARD STORAGE CENTERS, INC.**

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of Shurgard Storage Centers, Inc.:

We have completed integrated audits of Shurgard Storage Centers, Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits and the report of other auditors, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, based on our audits and the report of other auditors on the Shurgard Self Storage, SCA financial statements as of December 31, 2003, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Shurgard Storage Centers, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, based on our audits, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We did not audit the financial statements of Shurgard Self Storage, SCA, an investment accounted for under the equity method, which statements reflect total shareholders' equity of \$137.6 million as of December 31, 2003 and net loss of \$29.9 million for the year ended December 31, 2003. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Shurgard Self Storage, SCA, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 2 to the consolidated financial statements, the Company adopted FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*, in 2004.

Internal control over financial reporting

Also, in our opinion, based on our audit, management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, based on our audit, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight

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Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Seattle, Washington

March 20, 2006, except with respect to our opinions on the consolidated financial statements and financial statement schedule insofar as they relate to the effects of the discontinued operations as discussed in Note 25, as to which the date is May 23, 2006.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands except share and per share data)

| | As of December 31, | |
|---|--------------------|--------------|
| | 2005 | 2004 |
| ASSETS | | |
| Storage centers: | | |
| Operating storage centers | \$ 3,244,258 | \$ 3,143,488 |
| Less accumulated depreciation | (552,171) | (479,531) |
| Operating storage centers, net | 2,692,087 | 2,663,957 |
| Construction in progress | 67,073 | 58,431 |
| Properties held for sale | 6,774 | 8,328 |
| Total storage centers | 2,765,934 | 2,730,716 |
| Cash and cash equivalents | 39,778 | 50,277 |
| Restricted cash | 4,972 | 7,181 |
| Goodwill | 27,440 | 24,206 |
| Other assets | 119,248 | 128,204 |
| Total assets | \$ 2,957,372 | \$ 2,940,584 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts payable and other liabilities | \$ 181,435 | \$ 180,652 |
| Lines of credit | 583,500 | 397,300 |
| Notes payable | 1,275,720 | 1,287,202 |
| Total liabilities | 2,040,655 | 1,865,154 |
| Minority interest | 116,365 | 169,232 |
| Commitments and contingencies (Note 22) | | |
| Shareholders' equity: | | |
| Series C Cumulative Redeemable Preferred Stock; \$0.001 par value; 2,000,000 shares authorized; 2,000,000 shares issued and outstanding; liquidation preference of \$50,000 | 48,115 | 48,115 |
| Series D Cumulative Redeemable Preferred Stock; \$0.001 par value; 3,450,000 shares authorized; 3,450,000 shares issued and outstanding; liquidation preference of \$86,250 | 83,068 | 83,068 |
| Class A Common Stock, \$0.001 par value; 120,000,000 authorized; 47,041,680 and 46,624,900 shares issued and outstanding, respectively | 47 | 47 |
| Additional paid-in capital | 1,142,288 | 1,127,138 |
| Accumulated deficit | (459,586) | (354,985) |
| Accumulated other comprehensive (loss) income | (13,580) | 2,815 |
| Total shareholders' equity | 800,352 | 906,198 |
| Total liabilities and shareholders' equity | \$ 2,957,372 | \$ 2,940,584 |

The accompanying notes are an integral part of these statements.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands except share and per share data)

| | For the year ended | | |
|---|--------------------|----------------------|------------|
| | 2005 | December 31, 2004 | 2003 |
| Revenue | | | |
| Storage center operations | \$ 478,970 | \$ 419,187 | \$ 291,085 |
| Other | 4,922 | 5,101 | 6,877 |
| Total revenue | 483,892 | 424,288 | 297,962 |
| Expenses | | | |
| Operating | 233,006 | 211,380 | 125,880 |
| Real estate development | 10,042 | 4,991 | 23 |
| Depreciation and amortization | 95,722 | 87,503 | 55,537 |
| Impairment and abandoned project expense | 3,354 | 2,856 | 13,889 |
| General, administrative and other | 35,318 | 32,961 | 18,012 |
| Total storage center expenses | 377,442 | 339,691 | 213,341 |
| Income from operations | 106,450 | 84,597 | 84,621 |
| Other Income (Expense) | | | |
| Costs related to takeover proposal and exploration of strategic alternatives (Note 22) | (13,775) | | |
| Interest expense | (105,584) | (82,876) | (51,182) |
| Amortization of participation rights discount | | 1,123 | 5,529 |
| Loss on derivatives, net | (2,122) | (615) | (2,194) |
| Foreign exchange (loss) gain | (9,665) | 6,247 | (431) |
| Interest income and other, net | 3,746 | 4,361 | 4,887 |
| Other expense, net | (127,400) | (71,760) | (43,391) |
| (Loss) income before minority interest, equity in earnings of other real estate investments, net and income tax expense | (20,950) | 12,837 | 41,230 |
| Minority interest | 20,936 | 16,608 | (1,206) |
| Equity in earnings (losses) of other real estate investments, net | 60 | 93 | (3,099) |
| Income tax expense | (636) | (72) | (1,611) |
| (Loss) income from continuing operations | (590) | 29,466 | 35,314 |
| Discontinued operations | | | |
| Income from discontinued operations | 418 | 1,942 | 2,324 |
| Gain on sale of discontinued operations | 11,831 | 16,226 | |
| Total discontinued operations | 12,249 | 18,168 | 2,324 |
| Cumulative effect of change in accounting principle | | (2,339) | |

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| | | | |
|---|---------------|---------------|---------------|
| Net Income | 11,659 | 45,295 | 37,638 |
| Net Income Allocation | | | |
| Preferred stock dividends and other | (12,153) | (12,193) | (12,082) |
| Net (loss) income available to common shareholders | \$ (494) | \$ 33,102 | \$ 25,556 |
| Basic per share amounts: | | | |
| (Loss) income from continuing operations available to common shareholders | \$ (0.27) | \$ 0.37 | \$ 0.57 |
| Discontinued operations | 0.26 | 0.40 | 0.06 |
| Cumulative effect of change in accounting principle | | (0.05) | |
| Net (loss) income available to common shareholders per share | \$ (0.01) | \$ 0.72 | \$ 0.63 |
| Diluted per share amounts: | | | |
| (Loss) income from continuing operations available to common shareholders | \$ (0.27) | \$ 0.37 | \$ 0.56 |
| Discontinued operations | 0.26 | 0.39 | 0.06 |
| Cumulative effect of change in accounting principle | | (0.05) | |
| Net (loss) income available to common shareholders per share | \$ (0.01) | \$ 0.71 | \$ 0.62 |
| Distributions per common share | \$ 2.23 | \$ 2.19 | \$ 2.15 |

The accompanying notes are an integral part of these statements.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(in thousands)

| | Preferred Stock | | Class A Common Stock | | Additional | | Accumulated Other Comprehensive Income (Loss) | Total |
|---------------------------------|-----------------|------------|-------------------------|--------|--------------------|------------------------|--|------------|
| | Shares | Amount | Shares | Amount | Paid-in Capital | Accumulated Deficit | | |
| Balance, January 1, 2003 | 5,450 | \$ 131,183 | 35,934 | \$ 36 | \$ 804,582 | \$ (225,811) | \$ (2,734) | \$ 707,256 |
| Comprehensive income (1) | | | | | | 37,638 | 12,492 | 50,130 |
| Issuance of common stock | | | 9,814 | 10 | 296,367 | | | 296,377 |
| Distributions: | | | | | | | | |
| Preferred | | | | | | (11,896) | | (11,896) |
| Common | | | | | | (87,447) | | (87,447) |
| Balance, December 31, 2003 | 5,450 | 131,183 | 45,748 | 46 | 1,100,949 | (287,516) | 9,758 | 954,420 |
| Comprehensive income (loss) (1) | | | | | | 45,295 | (6,943) | 38,352 |
| Issuance of common stock | | | 877 | 1 | 26,189 | | | 26,190 |
| Distributions: | | | | | | | | |
| Preferred | | | | | | (11,897) | | (11,897) |
| Common | | | | | | (100,867) | | (100,867) |
| Balance, December 31, 2004 | 5,450 | 131,183 | 46,625 | 47 | 1,127,138 | (354,985) | 2,815 | 906,198 |
| Comprehensive income (loss) (1) | | | | | | 11,659 | (16,395) | (4,736) |
| Issuance of common stock | | | 417 | | 15,150 | | | 15,150 |
| Distributions: | | | | | | | | |
| Preferred | | | | | | (11,897) | | (11,897) |
| Common | | | | | | (104,363) | | (104,363) |
| Balance, December 31, 2005 | 5,450 | \$ 131,183 | 47,042 | \$ 47 | \$ 1,142,288 | \$ (459,586) | \$ (13,580) | \$ 800,352 |

(1) See Note 2 for components of other comprehensive income (loss).

The accompanying notes are an integral part of these statements.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

| | For the year ended December 31, | | |
|---|---------------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Operating activities: | | | |
| Net income | \$ 11,659 | \$ 45,295 | \$ 37,638 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Gain on sale of assets, including discontinued operations | (12,850) | (16,689) | (2,489) |
| Cumulative effect of change in accounting principle | | 2,339 | |
| Depreciation, amortization and impairment losses | 96,242 | 88,209 | 69,051 |
| Loss on derivatives, net | 2,122 | 615 | 2,194 |
| Stock-based compensation expense | 2,751 | 3,433 | 1,150 |
| Equity in earnings of other real estate investments, net | (60) | (93) | 3,099 |
| Non-cash interest and other | 10,454 | 7,017 | (1,376) |
| Foreign exchange loss (gain) | 9,523 | (6,247) | 431 |
| Minority interest | (20,936) | (16,608) | 1,206 |
| Changes in operating accounts, net of effect of acquisitions: | | | |
| Other assets | (2,809) | (3,816) | 7,968 |
| Accounts payable, accrued expenses and other liabilities | 20,056 | 19,286 | 4,826 |
| Net cash provided by operating activities | 116,152 | 122,741 | 123,698 |
| Investing activities: | | | |
| Construction and improvements to storage centers | (166,886) | (209,294) | (97,482) |
| Acquisitions of storage centers, including associated intangible assets | (35,659) | (20,887) | |
| Purchase of intangible assets | (5,268) | (3,548) | (379) |
| Proceeds from sale of assets | 26,293 | 30,071 | 5,725 |
| Changes in restricted cash, net | 1,610 | (3,046) | (355) |
| Increase in notes receivable | (4,429) | (5,617) | (6,315) |
| Purchase of additional interest in European affiliated partnerships | (97,847) | (5,285) | (309,068) |
| Increase in cash due to consolidation of Shurgard Europe | | 32,877 | |
| Purchase of additional interest in affiliated partnerships | | (2,457) | (245) |
| Net cash used in investing activities | (282,186) | (187,186) | (408,119) |

Table of Contents**SHURGARD STORAGE CENTERS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(in thousands)

| | For the year ended December 31, | | |
|--|---------------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Financing activities: | | | |
| Proceeds from notes payable | 78,718 | 556,763 | 237,047 |
| Payments on notes payable | (4,564) | (96,500) | (55,789) |
| Proceeds from lines of credit | 1,056,500 | 427,000 | 589,695 |
| Payments on lines of credit | (870,300) | (676,949) | (594,114) |
| Payment of loan costs | (7,638) | (2,621) | (1,276) |
| Payments on participation rights | | (39,500) | (1,320) |
| Distributions paid on common and preferred stock | (113,284) | (112,764) | (99,343) |
| Payments on derivatives | (15,999) | | |
| Proceeds from derivatives | 1,114 | | |
| Proceeds from issuance of common stock, net | | | 178,236 |
| Proceeds from payments on loans to shareholders | | | 20,000 |
| Proceeds from exercise of stock options and dividend reinvestment plan | 7,821 | 21,491 | 12,858 |
| Contributions received from minority partners | 32,006 | 29,403 | 226 |
| Distributions paid to minority partners | (4,634) | (6,956) | (3,097) |
| Net cash provided by financing activities | 159,740 | 99,367 | 283,123 |
| Effect of exchange rate changes on cash and cash equivalents | (4,205) | 3,685 | |
| (Decrease) increase in cash and cash equivalents | (10,499) | 38,607 | (1,298) |
| Cash and cash equivalents at beginning of period | 50,277 | 11,670 | 12,968 |
| Cash and cash equivalents at end of period | \$ 39,778 | \$ 50,277 | \$ 11,670 |
| Supplemental schedule of cash flow information: | | | |
| Cash paid for interest, net of amounts capitalized | \$ 98,412 | \$ 71,791 | \$ 47,272 |
| Cash paid for income taxes | \$ 1,746 | \$ (40) | \$ 3,358 |
| Supplemental schedule of non-cash investing information: | | | |
| Common stock issued in acquisition of storage centers | \$ 5,490 | \$ 1,936 | \$ 84,134 |
| Notes receivable forgiven in the acquisition of storage centers | \$ 6,727 | \$ | \$ |
| Contributions from minority interest partners | \$ | \$ 3,635 | \$ 2,336 |
| Minority interests granted in acquisition of storage centers | \$ 4,475 | \$ | \$ |
| Supplemental schedule of non-cash financing information: | | | |
| Preferred dividends declared but not paid | \$ 2,976 | \$ | \$ |

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of the Business

Shurgard Storage Centers, Inc. and our subsidiaries (the Company, we, Shurgard or us) are engaged principally in investing in, acquiring, developing and operating self-storage centers located in markets throughout the United States and in Western Europe. Our revenues are generated primarily from leasing self-storage space to tenants on a month-to-month basis. We also provide ancillary services at our storage centers consisting primarily of truck rentals and sales of storage products. Prior to January 1, 2004, we did not consolidate Shurgard Self Storage, SCA (Shurgard Europe) and its subsidiaries in our financial statements. Instead, we accounted for our investments in these entities under the equity method of accounting.

Note 2 Summary of Significant Accounting Policies

Basis of presentation: The consolidated financial statements are presented on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of Shurgard and our consolidated subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Any references to the number of properties and square footage in the consolidated financial statement notes are unaudited.

Consolidated and unconsolidated subsidiaries: We consolidate all wholly-owned subsidiaries. We assess whether our subsidiaries are Variable Interest Entities (VIEs) as defined by the Financial Accounting Standards Board's (FASB) Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities. Since January 1, 2004, we consolidate all VIEs of which we are the primary beneficiary. Partially-owned subsidiaries and joint ventures that are not VIEs are consolidated when we control the entity. Through June 30, 2005, we evaluated partially-owned subsidiaries and joint ventures held in partnership form in accordance with the provisions of Statement of Position (SOP) 78-9, Accounting for Investments in Real Estate Ventures, to determine whether the rights held by other investors constitute important rights as defined therein. Since July 1, 2005, we evaluate such rights in accordance with Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. For partially-owned subsidiaries or joint ventures held in corporate form (including limited liability companies with governance provisions that are the functional equivalent of regular corporations), we consider the guidance of Statement of Financial Accounting Standard (SFAS) No. 94, Consolidation of All Majority-Owned Subsidiaries and EITF Issue No. 96-16, Investor's Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights and, in particular, whether rights held by other investors would be viewed as participating rights as defined therein. To the extent that any minority investor has substantive participating rights, has the ability to dissolve the partnership or remove the general partner without cause in a partnership or participating rights in a corporation, including substantive veto rights, the related entity will generally not be consolidated.

We account for unconsolidated subsidiaries and joint ventures over which we have significant influence using the equity method. In applying the equity method, our proportionate share of intercompany profits is eliminated as a component of equity in earnings of unconsolidated entities.

Foreign operations: The functional currency of each of our European subsidiaries, and their subsidiaries, is the local currency of the country in which the entity has operations (euro for members of the European Union that have adopted the euro, Krona for Sweden, Pound Sterling for the United Kingdom, and Krone for Denmark). Assets and liabilities are translated at the exchange rate in effect as of the end of each period and income statement accounts are re-measured at the average exchange rate for each period. Additionally, Recom SNC (Recom), a consolidated foreign entity with a U.S. dollar functional currency, has transactions that are

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

denominated in currencies other than U.S. dollars. For Recom, non-monetary assets and liabilities are converted to U.S. dollars at historical exchange rates, monetary assets and liabilities are re-measured at the exchange rate in effect as of the end of the period and income statement accounts are re-measured at the average exchange rate for the period.

The results of our operations and our financial position are affected by the fluctuations in the value of the euro, and to a lesser extent, other European currencies, against the U.S. dollar. We recognize the effects of foreign currency exchange variances on our European assets, liabilities and equity as a currency translation adjustment in other comprehensive income (loss). We include gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables on intercompany transactions, in net income. Also, we are exposed to foreign currency exchange risk related to intercompany debt with or between our European subsidiaries that are not denominated in the functional currency of the subsidiary or the investee. We recognize the effects of foreign currency on such debt in net income when we expect to settle the debt and in other comprehensive income when the debt is considered to be of a long-term investment nature.

Use of estimates: The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the amounts of revenues and expenses recognized during the reporting period. Significant estimates are inherent in the preparation of our financial statements and include the evaluation of impairment of long-lived assets and goodwill, valuation allowance for deferred tax assets, estimated lives of depreciable and amortizable assets, the allocation of the purchase price of acquired properties and legal liabilities. Actual results could differ from these and other estimates.

Reclassifications: We have reclassified certain prior year amounts to conform to the current presentation with no effect on shareholders' equity, net income or net cash-flows from operating, investing and financing activities.

Storage centers: We carry storage centers to be developed or held and used in operations at depreciated cost, reduced for impairment losses where appropriate. We capitalize acquisition, development and construction costs of properties in development in accordance with SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, and include, where applicable, salaries and related costs, real estate taxes, interest, lease expense and preconstruction costs directly related to the project. The preconstruction stage of development of a storage center (or redevelopment of an existing storage center) includes efforts to secure land control and zoning, to evaluate feasibility and to complete other initial tasks that are essential to development. Costs of preconstruction efforts incurred prior to projects being considered probable to be completed are charged as real estate development expenses as incurred. We record abandonment losses for previously capitalized costs of development projects when we assess that the completion of the project is no longer probable. We capitalize development and construction costs and costs of significant improvements and replacements and renovations at storage centers, while we expense costs of maintenance and repairs as we incur them.

We compute depreciation of each operating storage center using the straight-line method based on the shorter of an estimated useful life of 30 years or the lease term for storage centers built on leased land. We evaluate and if necessary, revise estimates of the useful lives of specific storage centers, when we plan to demolish or replace them. We depreciate equipment and furniture and fixtures based on estimated useful lives of three to six years.

If events or circumstances indicate that the carrying value of an operating storage center may be impaired, we conduct a recoverability analysis based on expected undiscounted cash flows to be generated from the

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

property. If the analysis indicates that we cannot recover the carrying value from estimated future cash flows, we write down the property to its estimated fair value and recognize an impairment loss. We determine fair values based on expected future cash flows using appropriate market discount and capitalization rates.

We carry storage centers held for sale at the lower of their carrying value (i.e., cost less accumulated depreciation and any impairment loss recognized) or estimated fair value less costs to sell. We classify the net carrying values of properties as held for sale when the properties are actively marketed, their sale is considered probable within one year and various other criteria relating to their disposition are met. We discontinue depreciation of the operating storage centers at that time, but we continue to recognize operating revenues, operating expenses and interest expense until the date of sale. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we report revenues and expense of properties classified as held for sale in discontinued operations for all periods presented if we will sell or have sold the properties on terms where we have no continuing involvement with them after the sale. If active marketing ceases or the properties no longer meet the criteria to be classified as held for sale, we reclassify the properties as held for use, resume depreciation and recognize the loss for the period that we classified the properties as held for sale, and we charge deferred selling costs, if any, to expense.

We recognize gains from sales of properties using the full accrual method provided that the terms of the transactions and any continuing involvement by us with the properties sold meet certain criteria. We defer gains relating to transactions that do not meet the established criteria and recognize them when the criteria are met, or using the installment or cost recovery methods, as appropriate in the circumstances. We account for other sales of interests in properties that are substantially financing arrangements as such.

Acquisitions of businesses and storage centers: We allocate the purchase price of acquired storage centers and businesses to tangible and identified intangible assets based on their fair values. In making estimates of fair values for the purposes of allocating the purchase price, we rely primarily on our extensive knowledge of the market for storage centers and if considered appropriate, will consult with independent appraisers. In estimating the fair value of the tangible and intangible assets acquired, we also consider information obtained about each property as a result of our pre-acquisition due diligence, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective assets.

The fair values of intangible assets include leases to customers with above market rents and in-place lease values. The fair values of these identifiable intangible assets are generally not significant, because substantially all leases in our business are month-to-month, and most customers use our facilities for less than one year. We expense internal costs related to the acquisition of a business, or an operating storage center, as we incur them.

We classify as goodwill any purchase price in excess of the value of acquired net tangible and identified intangible assets acquired in a business combination (including the acquisition of a minority interest in a business) or in the acquisition of a business and assign it to the reporting unit that expects to benefit from the acquisition. We test goodwill for impairment annually and whenever events or circumstances indicate that impairment may have occurred.

We evaluate acquisitions of businesses and storage centers from parties with whom we have a preexisting relationship to determine if a settlement of the preexisting relationship exists and, if so, we account for these acquisitions as multiple element transactions.

Cash and cash equivalents: Cash equivalents consist of money market instruments and securities with original maturities of 90 days or less.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted cash: Restricted cash consists of cash deposits and represents expense reserves required by lenders or contractors and escrow deposits on pending real estate transactions or pending resolution of contingencies on the purchase price of completed real estate acquisitions.

Other assets: Other assets include financing costs, non-compete agreements and computer software costs (see Note 7). We amortize financing costs over the life of the related debt using the effective interest or the straight-line method if it approximates the effective interest method and we include the related expense in interest expense. We amortize non-compete agreements over their estimated useful lives, which range from two to five years. We record internal-use computer software at cost less accumulated amortization and amortize it over the estimated useful life, which ranges from two to seven years. During the software application development stage, capitalized costs include external consulting costs, cost of software licenses, interest expense and internal payroll and payroll-related costs for employees who are directly associated with the software project. We expense software maintenance, training and data conversion costs in the period in which we incur them.

Self insurance: We are self-insured for a portion of the risks associated with medical, dental and workmen's compensation. We recognize liabilities for unpaid claims and claims adjustment expenses that represent our best estimate of the total obligation for reported claims plus those incurred but not reported (IBNR) and the related estimated claim settlement expenses for all claims incurred through December 31 of each year. We determine IBNR reserves for workmen's compensation using actuarial methods that take into account historical loss experience data, industry statistics and additional qualitative factors, as appropriate. Additionally, we recognize a receivable for the estimated insurance reimbursement for any insured portion of the total liabilities.

Income taxes: We have elected to be taxed as a Real Estate Investment Trust (REIT) pursuant to the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must distribute annually to our shareholders at least 90% of our REIT taxable income and meet certain other requirements relating primarily to the nature of our assets and the sources of our revenues. As a REIT, we are not subject to U.S. Federal income taxes to the extent of distributions. We believe that we met the qualifications for REIT status at December 31, 2005 and intend to meet the qualifications in the future and to distribute at least 90% of our REIT taxable income to shareholders in 2006 and future years. We conduct our domestic non-REIT activities primarily through Shurgard TRS, Inc., a taxable REIT subsidiary. We conduct our foreign non-REIT activities primarily through six European taxable REIT subsidiaries. As a result, we have not provided for U.S. federal income taxes for the REIT in our financial statements. However, we do provide for U.S. federal income taxes for our domestic taxable REIT subsidiaries (TRSs). Additionally, both the REIT and our domestic TRSs are subject to certain state income taxes as well as franchise taxes in some jurisdictions. We also provide for income taxes of our European subsidiaries, which are subject to income taxes in the respective jurisdictions of the countries in which they operate.

We have deferred tax assets arising primarily from cumulative net operating losses arising in certain taxable subsidiaries. We evaluate both the positive and negative evidence that we believe is relevant in assessing whether we will realize the deferred tax assets. When we determine that it is more likely than not that we will not realize the tax asset either in part or in whole, we record a valuation allowance. One significant factor representing negative evidence in the evaluation of whether we will realize deferred tax assets arising from cumulative net operating losses is the historical taxable income or loss of the entity. In cases where a taxable entity has not demonstrated a history of achieving taxable income, this represents significant negative evidence in assessing whether we will realize the amounts and generally requires that we provide a valuation allowance.

Revenue recognition: The majority of our customers rent under month-to-month lease agreements and we recognize revenue at the contracted rate for each month occupied. We recognize revenue related to customers

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

who sign longer period leases ratably over the term of the lease. We recognize management fee revenue each month for which we render services. These contracts are generally cancelable by either party on specified advanced notice. Revenues are presented net of provisions for doubtful accounts of \$6.8 million, \$6.0 million and \$5.0 million in 2005, 2004 and 2003, respectively.

We recognize, in other revenue, revenue on our profit sharing contracts related to our tenant insurance referral program based on the excess of premiums over estimated claims and administrative costs.

Capitalized interest: We capitalize interest incurred during the construction period of storage centers and during the development period of internally developed computer software. We capitalize interest to the related assets using a weighted-average rate of our credit facilities and senior notes payable. For the years ended December 31, 2005, 2004 and 2003, we capitalized interest of \$3.2 million, \$2.7 million and \$2.3 million, respectively.

Advertising costs: We incur advertising costs primarily attributable to print advertisements in telephone books. We recognize the costs when the related telephone book is first published. We recognized \$17.7 million, \$17.3 million and \$6.0 million in advertising expenses for the years ended December 31, 2005, 2004 and 2003, respectively.

Derivative financial instruments: We use derivative financial instruments to reduce risks associated with movements in interest and foreign currency exchange rates. We may choose to reduce cash flow and earnings volatility associated with interest rate risk exposure on existing variable-rate borrowings or forecasted variable- and fixed-rate borrowings. In some instances, lenders may require us to do so. In order to limit interest rate risk on variable-rate borrowings, we may enter into interest rate swaps or interest rate caps to hedge specific risks. In order to limit interest rate risk on forecasted borrowings, we may enter into interest rate swaps, forward starting swaps, forward rate agreements, interest rate locks and interest rate collars. We may also use derivative financial instruments to reduce foreign currency exchange rate risks to our earnings, cash flows and financial position arising from forecasted intercompany foreign currency denominated transactions and net investments in certain foreign operations. In order to limit foreign currency exchange rate risks associated with forecasted intercompany foreign currency denominated transactions, we may enter into cross-currency interest rate swaps. In order to limit foreign currency exchange rate risks associated with net investments in foreign operations, we may enter into foreign currency forward contracts. We may also use derivative financial instruments to reduce earnings volatility associated with other derivative financial instruments that are not designated as cash flow hedges. We do not use derivative financial instruments for speculative purposes.

Under purchased interest rate cap agreements, we make initial premium payments to the counterparties in exchange for the right to receive payments from them if interest rates exceed specified levels during the agreement period. Under sold interest rate cap agreements, we receive initial premium payments from the counterparties in exchange for the obligation to make payments to them if interest rates exceed specified levels during the agreement period. Under interest rate swap agreements, we and the counterparties agree to exchange the difference between fixed-rate and variable-rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less.

Under cross currency interest rate swaps, we and the counterparties agree to exchange fixed amounts of foreign currencies calculated by reference to fixed interest rates and notional principal amounts during the agreement period. We also agree to exchange the notional amounts at the end of the agreement period. Under foreign currency forward contracts, we and the counterparties agree to exchange fixed amounts of foreign currencies at the end of the agreement period.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Parties to interest rate and foreign currency exchange agreements are subject to market risk for changes in interest rates and currency exchange rates and risk of credit loss in the event of nonperformance by the counterparty. We do not require any collateral under these agreements but deal only with highly rated financial institution counterparties (which, in certain cases, are also the lenders on the related debt) and expect that all counterparties will meet their obligations.

We measure derivative financial instruments at fair value and recognize these instruments as assets or liabilities on our balance sheet. We report changes in the values of the effective portions of derivative financial instruments designated as cash flow hedges and changes in the values of derivative financial instruments designated as economic hedges of net investments in foreign subsidiaries as components of other comprehensive income. We recognize changes in the values of the ineffective portions of cash flow hedges and all changes in the values of undesignated derivative financial instruments in earnings. We account for amounts receivable or payable under interest rate cap and swap agreements designated as cash flow hedges as adjustments to interest expense on the related debt. To qualify for hedge accounting, we must formally document the details of the hedging relationship at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks that are being hedged, the derivative instrument and how we assess effectiveness. The derivative must be highly effective in offsetting either changes in fair value or cash flows, as appropriate, for the risk being hedged. We evaluate effectiveness on a retrospective and prospective basis based on quantitative measures of correlation. When we determine that a derivative has ceased to be highly effective as a hedge, we discontinue hedge accounting prospectively.

We discontinue hedge accounting prospectively when (i) we determine that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (ii) the derivative expires or is sold, terminated or exercised; (iii) it is no longer probable that the forecasted transaction will occur; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; or (v) we determine that designating the derivative as a hedging instrument is no longer appropriate.

When we discontinue hedge accounting because we determine that the derivative no longer qualifies as an effective fair-value hedge, we will continue to carry the derivative on the balance sheet at its fair value but cease to adjust the hedged asset or liability for changes in fair value. When we discontinue hedge accounting because the hedged item no longer meets the definition of a firm commitment, we will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that we recorded to recognize the firm commitment and recording it as a gain or loss in current period earnings. When we discontinue hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and we reclassify it into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two month period of time thereafter, we immediately recognize in earnings the gains and losses that were accumulated in other comprehensive income. If we discontinue a cash flow hedge because the variability of the probable forecasted transaction has been eliminated, we will reclassify the net accumulated other comprehensive income to income over the term of the designated hedging relationship. Whenever we discontinue hedge accounting and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current period earnings. Expenses recognized relating to changes in the time value of interest rate cap agreements were insignificant in 2005, 2004 and 2003.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Other comprehensive income: The following tables summarize components of other comprehensive income:

| | 2005 | 2004 (in thousands) | 2003 |
|---|------------|------------------------|-----------|
| Net income | \$ 11,659 | \$ 45,295 | \$ 37,638 |
| Other comprehensive income (loss): | | | |
| Derivatives designated as hedges | 440 | (10,118) | 2,058 |
| Currency translation adjustment | (16,835) | 3,175 | 10,434 |
| Total other comprehensive (loss) income | (16,395) | (6,943) | 12,492 |
| Total comprehensive (loss) income | \$ (4,736) | \$ 38,352 | \$ 50,130 |

The currency translation adjustment represents the net currency translation adjustment gains and losses related to our European subsidiaries. Amounts are presented net of minority interest.

Financial instruments: The carrying values reflected on the consolidated balance sheet at December 31, 2005 and 2004 reasonably approximate the fair values of restricted cash, cash and cash equivalents, other assets, accounts payable and other liabilities, lines of credit and variable rate debt.

Based on the borrowing rates currently available to us for bank loans with similar terms and average maturities, we estimate the fair value of our fixed rate long-term debt was \$648.8 million compared to a book value of \$617.3 million at December 31, 2005. As of December 31, 2004, we estimated the fair value of our fixed rate long-term debt was \$667.7 million compared to a book value of \$619.5 million.

Financial assets that are exposed to credit risk consist primarily of accounts receivable and notes receivable. As of December 31, 2005 and 2004, notes receivable, which are included in other assets, consisted primarily of notes to finance the construction of certain properties and were secured by the properties. The carrying values of those notes approximate fair value, because the applicable interest rates approximate market rates for these loans. We adjust the value of notes that we consider are not collectible. In 2003, we recognized a \$1.6 million impairment expense on the write-down of one note receivable. Accounts receivable from customers are included in other assets (see Note 7), and are not a significant component of total assets. Accounts are deemed past due based on payment terms. The allowance for doubtful accounts represents management's estimate and is based on historic losses, recent collection history of individual customers, foreclosure recovery experience for each storage center and economic conditions. We write-off delinquent accounts to the extent and at the time we deem them to be not recoverable.

Financial instruments with characteristics of both liabilities and equity: We adopted the requirements of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, in the third quarter of 2003, and there was no impact on our financial position, operating results or cash flows. However, the minority interests associated with certain of our consolidated joint ventures and our European subsidiaries that have finite lives under the terms of the partnership agreements represent mandatorily redeemable interests as defined in SFAS No. 150. As of December 31, 2005 and 2004, the aggregate book value of these minority interests in finite-lived entities on our consolidated balance sheet was \$105.3 million and \$158.4 million, respectively and we believe that the estimated aggregate settlement value of these interests was approximately \$213.2 million and \$210.0 million, respectively. This amount is based on the estimated liquidation values of the assets and liabilities and the resulting proceeds that we would distribute to our joint venture partners assuming dissolution as of December 31, 2005. As required under the terms of the respective partnership agreements, subsequent changes to the estimated fair value of the assets and liabilities of the consolidated joint

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

ventures will affect our estimate of the aggregate settlement value. The partnership agreements do not limit the amount to which the minority partners would be entitled in the event of liquidation of the assets and liabilities and dissolution of the respective partnerships.

Stock-based compensation expense. At December 31, 2005, we had stock based employee compensation plans, which are described more fully in Note 16 to the financial statements. We account for stock based compensation under APB Opinion No. 25, Accounting for Stock Issued to Employees. We adopted the disclosure provisions of SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure, which amends SFAS No. 123, Accounting for Stock Based Compensation.

The following table reflects pro forma net income as if we had recognized stock-based compensation expense using the fair value method in accordance with SFAS No. 123.

| | 2005 | 2004 | 2003 |
|---|--------------------------------------|-----------|-----------|
| | (in thousands except per share data) | | |
| Net income: | | | |
| As reported | \$ 11,659 | \$ 45,295 | \$ 37,638 |
| Add: Stock based compensation expense | 2,751 | 3,433 | 1,150 |
| Less: Pro forma stock based compensation expense | (4,315) | (4,502) | (2,132) |
| Pro forma net income | \$ 10,095 | \$ 44,226 | \$ 36,656 |
| Basic net (loss) income available to common shareholders per share: | | | |
| As reported | \$ (0.01) | \$ 0.72 | \$ 0.63 |
| Pro forma | (0.04) | 0.70 | 0.61 |
| Diluted net (loss) income available to common shareholders per share: | | | |
| As reported | \$ (0.01) | \$ 0.71 | \$ 0.62 |
| Pro forma | (0.04) | 0.69 | 0.60 |

Recent accounting pronouncements: In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, a revision of SFAS No. 123. This statement disallows APB Opinion No. 25's intrinsic value method of accounting for share based compensation awards and generally requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the fair value of those awards as of their grant date. We will adopt the provisions of SFAS 123R as of January 1, 2006 using the modified prospective method. Under the modified prospective method, compensation cost is recognized beginning with the effective date for all share-based payments granted after the effective date and for the unamortized portion of all awards granted to employees prior to the effective date of SFAS No. 123R. Under SFAS No. 123R, we will recognize stock-based compensation expenses related to our stock option plans and our Employee Stock Purchase Plan that were previously only subject to disclosure. We are still evaluating the impact of adopting SFAS No. 123R on our financial position and operating results in 2006. We believe that the disclosure of pro-forma results required under SFAS No. 123 approximates our results if we had adopted the provisions of SFAS 123R as of January 1, 2003.

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1 Accounting for Rental Costs Incurred during a Construction Period, which is effective for lease agreements entered into after January 1, 2006. This FSP clarifies that rental costs incurred during the period of construction of an asset on leased property should not be capitalized; rather they should be recognized as rental expense in the same manner as rental costs incurred after the construction period. However, to the extent a lessee accounts for rental of real estate projects under SFAS No. 67,

Accounting for Costs and Initial Rental Operations of Real Estate Projects, it should continue capitalizing rental costs. We lease under operating leases certain parcels of land and buildings on which

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

we develop storage centers or perform certain construction improvements. We have historically capitalized rental costs during the construction period on such properties. We account for real estate projects involving our development and construction of self-storage facilities under SFAS No. 67; therefore, we do not believe that the adoption of this FSP will have a material impact on our financial position, operating results or cash flows.

In June 2005, the FASB issued EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. In light of guidance provided in FIN 46R regarding kick-out rights in the context of evaluating variable interests and consolidation of variable interest entities, EITF 04-5 clarifies when a sole general partner should consolidate a limited partnership. EITF 04-5 provides authoritative guidance for purposes of assessing whether a limited partner's rights are important rights that, under SOP 78-9, might preclude a general partner from consolidating a limited partnership. For general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, EITF 04-5 is effective after June 29, 2005. For general partners in all other limited partnerships, the guidance in this Issue was effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. We do not believe that the adoption of EITF 04-5 will have a material impact on our financial position, operating results or cash flows.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a voluntary change in accounting principle. It also applies to changes required by an accounting pronouncement in the instance that the pronouncement does not include specific transition provisions. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application of changes in accounting principle to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. We will adopt the provisions of SFAS No. 154 as of January 1, 2006 and we do not believe this statement will have a material impact on our financial position, operating results or cash flows.

In March 2005, the FASB issued FASB FIN 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies that the term conditional asset retirement obligations as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlements are conditional on a future event that may or may not be within the control of the entity. FIN 47 indicates that an entity must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated and also clarifies when an entity should have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This interpretation was effective October 1, 2005. The adoption of FIN 47 had no material impact on our financial position, operating results or cash flows.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*. This statement eliminates the exception to the measurement at fair value for exchanges of similar productive assets and replaces it with an exception for exchange transactions that lack economic substance. The provisions of this statement were effective for transactions occurring after June 15, 2005 and have been applied prospectively. Accordingly, any exchange of properties or interests in properties needs to be evaluated for economic substance. The adoption of SFAS No. 153 had no material impact on our financial position, operating results or cash flows.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Variable Interest Entities and Cumulative Effect of Change in Accounting Principle

Under FIN 46R, a VIE must be consolidated by a company if that company is subject to a majority of the expected losses from the VIE's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46R also requires disclosures about VIEs that a company is not required to consolidate, but in which it has a significant variable interest. We adopted FIN 46R as of January 1, 2004.

Prior to June 30, 2005, we had direct and indirect ownership interests in Shurgard Self Storage SCA (Shurgard Europe) of 87.23%. We assessed Shurgard Europe under the provisions of FIN 46R and concluded that it met the definition of a VIE. We also concluded that we were the primary beneficiary effective as of June 2003. As a result, we began consolidating Shurgard Europe in our financial statements beginning January 1, 2004. On June 30, 2005, we acquired the remaining 12.77% ownership interests in Shurgard Europe at a purchase price of approximately \$97.4 million in cash. Accordingly, as of June 30, 2005, Shurgard Europe became a wholly-owned subsidiary and is no longer a VIE.

Shurgard Europe has created two joint venture entities: First Shurgard SPRL (First Shurgard) formed in January 2003 and Second Shurgard SPRL (Second Shurgard) formed in May 2004. Those joint ventures are expected to develop or acquire up to approximately 75 storage facilities in Europe. Shurgard Europe has a 20% interest in each of these ventures. We have also determined that First Shurgard and Second Shurgard are each VIEs, of which Shurgard Europe is the primary beneficiary. Accordingly, First Shurgard has been consolidated in our financial statements since January 1, 2004, and Second Shurgard has been consolidated since inception. At December 31, 2005, First Shurgard and Second Shurgard had aggregate total assets of \$330.7 million, total liabilities of \$212.5 million, and credit facilities collateralized by assets with net book value of \$310.9 million (see Note 9). As of December 31, 2005, First Shurgard's and Second Shurgard's creditors had no recourse to the general credit of Shurgard or Shurgard Europe other than certain loan commitments. Under those commitments, Shurgard could subscribe to up to \$20 million and an additional \$5.0 million (\$5.9 million as of December 31, 2005) in preferred bonds in a potential event of default of First Shurgard in addition to a \$2.5 million (\$3.0 million as of December 31, 2005) working capital facility. We have an option to put 80% of the bonds issued by First Shurgard to Crescent Euro Self Storage Investments, Shurgard Europe's partner in the joint venture.

In October 2004, Self-Storage Securitisation B.V. (Securitisation BV), a Dutch limited liability entity in which Shurgard and its subsidiaries have no ownership interest, was formed to issue \$325 million in floating rate investment grade bonds. This entity receives interest under a note of a similar amount with Shurgard Europe and holds certain derivatives instruments to hedge its interest rate exposure on the bonds. We determined that Securitisation BV is a VIE of which Shurgard Europe is the primary beneficiary based on the activity of this entity and the fact that the notes issued by Securitisation BV are collateralized by assets of Shurgard Europe. We have consolidated this entity since its inception.

Upon adoption of FIN 46R in 2004, we recognized a cumulative effect of change in accounting principle of approximately \$2.3 million relating to the consolidation of First Shurgard. This is the result of eliminating all intercompany profits from inception of First Shurgard in 2003 as required under FIN 46R. Prior to adoption of FIN 46R, we eliminated our 20% ownership share of intercompany profits.

We do not believe that any of our other investees in which we do not hold a majority voting interest are VIEs under the provisions of FIN 46R.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 4 Storage Centers**

The following table summarizes our operating storage centers at December 31, 2005 and 2004:

| | As of December 31, | |
|-------------------|---------------------------|--------------|
| | 2005 | 2004 |
| | (in thousands) | |
| Land | \$ 675,379 | \$ 662,458 |
| Building | 2,487,831 | 2,405,370 |
| Equipment & Other | 81,048 | 75,660 |
| | \$ 3,244,258 | \$ 3,143,488 |

During 2005, we purchased the remaining third party interest in Shurgard Europe, opened sixteen new storage centers, acquired ten storage centers and completed five major redevelopment projects on existing storage centers. We also sold five storage centers, including two that were classified as properties held for sale as of December 31, 2004. As of December 31, 2005, we had two properties and seven parcels of land held for sale with a net carrying value of \$6.8 million (see Note 25). Construction in progress at December 31, 2005, consisted primarily of nine storage centers under construction and redevelopment projects for two existing storage centers, compared to five storage centers under construction and six redevelopments as of December 31, 2004.

Acquisitions

We completed the following acquisitions in 2005:

We recorded \$47.0 million additions to storage centers related to our acquisition of the remaining third party interest in Shurgard Europe (See Note 5).

We acquired one storage center, for a purchase price of \$3.0 million, in North Carolina through Shurgard/Morningstar Storage Centers, LLC, one of our consolidated subsidiaries of which we own 74%. Also, we completed the purchase of six storage centers in North Carolina for an aggregate purchase price of \$26.0 million. These storage centers are managed by affiliates of certain members of Shurgard/Morningstar Storage Centers, LLC that are unrelated to Shurgard.

During 2005, we acquired Central Parkway Storage, Inc. (CPI), which owns two storage properties in Florida. We had a preexisting relationship with the shareholders of CPI and as part of the transaction we settled approximately \$1.2 million of liabilities due to them. We also settled an option we had to acquire an interest in a property owned by them and recorded a gain on that option of approximately \$560,000. The net consideration we issued in these transactions was approximately \$10.4 million and consisted of 127,684 shares of common stock (\$5.5 million) and cash (\$4.9 million). We allocated \$9.8 million of the consideration to storage centers and related assets. We also agreed to provide the sellers of CPI, at their request, a line of credit collateralized by the stock issued in the acquisition for up to 50% of the value of such stock for a term not to exceed 13 months with monthly interest payable at prime. No advances have been made under this facility.

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We have an agreement with a California developer under which it purchases sites in southern California and constructs storage centers on them according to our specifications. On completion of the rent-up period, we have the option to purchase the storage centers. In 2005, we contributed three storage centers to one of the joint ventures. The development manager of these storage centers contributed an additional storage center in California (subject to a mortgage due to us) to the venture. We cancelled the mortgage on that storage center and received an approximate 85% interest in the

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

venture; our partner received an approximate 15% interest in the venture. We agreed to lend up to \$10.0 million to this developer to fund the construction of two properties, secured by the properties developed. As of December 31, 2005, the developer had drawn \$9.4 million, which is included in other assets.

In 2005, we recognized assets for acquired non-compete agreements of \$3.4 million on the above described acquisitions.

In 2004, we acquired eight storage centers through various acquisition transactions for an aggregate cost of \$59.4 million, of which \$35.8 million was settled in cash.

Minnesota Mini-Storage

On June 30, 2003, we acquired five entities owning a total of 19 self-storage centers located in Minnesota and operated under the name of Minnesota Mini-Storage in order to establish market presence in that state. We have included the results of Minnesota Mini-Storage in our consolidated financial statements since that date. We accounted for this acquisition as a purchase transaction.

Assuming we had acquired Minnesota Mini-Storage at the beginning 2003, pro forma income for continuing operations and net income would have exceeded reported amounts for 2003 by approximately \$3.1 million or \$0.05 per share for basic and diluted.

Other storage center activity

In 2005, we completed the sale of five storage centers: one in Arizona, one in California and three in Washington, for aggregate total proceeds of approximately \$24.8 million and aggregate gains of \$11.8 million.

We determined that the net book value of certain properties exceeded their fair value less costs to sell. Accordingly, we recorded an impairment loss for these properties of \$420,000, \$80,000 and \$9.9 million in 2005, 2004 and 2003, respectively.

Additionally, the closure of warehouses of our containerized storage operations (see Note 11) caused us to evaluate the assets associated with these warehouses. As a result, we recognized equipment impairment losses related to these warehouses of \$650,000 in 2003. We also recorded losses from write-offs of development costs on several projects of \$2.9 million, \$2.8 million and \$1.2 million in 2005, 2004 and 2003.

Note 5 Investment in Shurgard Europe

We operate in seven European countries through our subsidiary Shurgard Europe. Through April 2003 our ownership interest in Shurgard Europe was 7.57%. During the period from April 2003 through December 31, 2003 we increased our ownership interest to 85.47% through several acquisition transactions and further increased our ownership interest in 2004 to 87.23%. On June 30, 2005, we acquired the remaining interest in Shurgard Europe for a purchase price of \$97.4 million in cash, net of the minority interest partner's share of intercompany debt between Shurgard Europe and Shurgard (approximately \$8.1 million). The purchase price and direct acquisition costs exceeded the carrying value of the related minority interest by approximately \$50.2 million of which we allocated \$47.0 million to the storage centers owned by Shurgard Europe and its subsidiaries based on the properties' fair values. We allocated the remaining \$3.2 million to goodwill associated with Shurgard Europe's underlying reporting units. We acquired this interest in order to gain full control of Shurgard Europe so that we can direct its future activities. We also expect to consolidate certain functions and, over the longer term, eliminate certain redundant costs.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Shurgard Europe conducts its development growth through two 20% owned consolidated joint ventures First Shurgard and Second Shurgard (see Note 3). These joint ventures had total equity commitments of 100 million (\$118.4 million as of December 31, 2005) each, of which 2.4 million and 55.2 million (\$2.8 million and \$65.4 million as of December 31, 2005) remained to be drawn for First Shurgard and Second Shurgard, respectively, at December 31, 2005.

As of December 31, 2005, Shurgard Europe and its subsidiaries owned, managed or leased 149 properties containing approximately 7.9 million rentable square feet in seven European countries.

As discussed in Note 3, upon the adoption of FIN 46R, we started consolidating Shurgard Europe and First Shurgard as of January 1, 2004, and we started consolidating Second Shurgard at its inception in May 2004. We previously accounted for our investments in Shurgard Europe and First Shurgard using the equity method of accounting.

Shurgard Europe financial information

Following are summarized statements of operations for Shurgard Europe and its subsidiaries. We have eliminated in consolidation with Shurgard, interest income related to the preferred bonds of Shurgard Europe (see Note 23) of \$8.7 million, \$8.0 million and \$6.9 million for the years ended December 31, 2005, 2004 and 2003.

Shurgard Self Storage S.C.A. (3)**Consolidated Statements of Operations**

| | 2005 | 2004 (1) | 2003 (1) |
|---|-----------------------|-----------------|-----------------|
| | (in thousands) | | |
| Revenue | | | |
| Storage center operations | \$ 124,928 | \$ 101,532 | \$ 70,118 |
| Other revenue | 101 | 219 | 11,376 |
| Total revenue | 125,029 | 101,751 | 81,494 |
| Expenses | | | |
| Operating | 83,793 | 74,250 | 50,373 |
| Real estate development | 7,396 | 4,592 | 8,928 |
| Depreciation and amortization | 24,831 | 21,090 | 19,433 |
| Impairment and abandoned project losses | 2,294 | 2,226 | 1,422 |
| General, administrative and other | 8,151 | 6,509 | 6,181 |
| Total expenses | 126,465 | 108,667 | 86,337 |
| Loss from operations | (1,436) | (6,916) | (4,843) |
| Other Income (Expense) | | | |
| Interest expense | (44,475) | (36,091) | (36,171) |
| Loss on derivatives | (4,073) | (1,244) | |
| Foreign exchange (loss) gain | (8,034) | 4,930 | 9,830 |
| Interest income and other | 224 | 605 | 1,520 |

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| | | | |
|--|-------------|-------------|-------------|
| Other expense, net | (56,358) | (31,800) | (24,821) |
| Loss before minority interest and income taxes | (57,794) | (38,716) | (29,664) |
| Minority interest (2) | 19,832 | 13,334 | |
| Income tax expense | (253) | (46) | (202) |
| Net loss before cumulative effect of accounting change | (38,215) | (25,428) | (29,866) |
| Cumulative effect of a change in accounting principle | | (2,339) | |
| Net loss | \$ (38,215) | \$ (27,767) | \$ (29,866) |

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Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (1) Certain prior years' amounts have been reclassified to conform to the current presentation with no effect on net loss.
- (2) The minority interest represents approximately 80% of the losses attributable to Shurgard Europe's joint ventures.
- (3) The financial information is presented as used for consolidation purposes with Shurgard and is not representative of Shurgard Europe's financial information in U.S. GAAP on a stand-alone basis.

Note 6 Goodwill

In 2005, we recognized \$3.2 million of goodwill associated with Shurgard Europe's underlying reporting units upon acquisition of our minority partner's share of Shurgard Europe (see Note 5).

In 2003, we determined that the remaining goodwill on Storage To Go, LLC (STG), a company that held our containerized storage operations, was fully impaired due to the closure of this activity. As a result, we recorded an impairment loss of \$490,000 in 2003.

Note 7 Other Assets and Accounts Payable and Other Liabilities

The following table summarizes other assets by category:

| | As of December 31, | |
|--|--------------------|-------------------|
| | 2005 | 2004 |
| | (in thousands) | |
| Financing costs, net of accumulated amortization of \$22,852 in 2005 and \$19,121 in 2004 | \$ 34,121 | \$ 39,976 |
| Trade receivable, net of allowance of \$4,681 in 2005 and \$3,393 in 2004 | 14,964 | 13,206 |
| Prepaid expenses | 14,751 | 15,300 |
| Software costs, net of accumulated amortization of \$3,056 in 2005 and \$2,134 in 2004 | 14,638 | 10,551 |
| Notes receivable | 13,868 | 16,956 |
| Non-competition, trademark and management agreements, net of accumulated amortization of \$9,827 in 2005 and \$8,464 in 2004 | 4,186 | 912 |
| Other accounts receivable | 10,958 | 12,560 |
| Other real estate investments (1) | 26 | 738 |
| Derivatives' assets (see Note 14) | 4,709 | 11,234 |
| Other assets, net of accumulated amortization of \$1,575 in 2005 and \$2,039 in 2004 | 7,027 | 6,771 |
| Total other assets | \$ 119,248 | \$ 128,204 |

- (1) We had an investment in one domestic unconsolidated entity accounted for using the equity method as of December 31, 2004. We sold our investment in that subsidiary in July 2005.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The major components of our amortizable intangible balances are software costs and non-compete agreements, trademark and management agreements. Amortizable intangibles are included in other assets as presented above. We recognized amortization expenses on these intangibles of \$2.9 million, \$1.4 million and \$1.3 million in 2005, 2004 and 2003. The following table summarizes our estimated amortization expense for intangible assets over the next five years (in thousands):

| | |
|------|-----------|
| 2006 | \$ 4,024 |
| 2007 | 4,161 |
| 2008 | 2,916 |
| 2009 | 2,389 |
| 2010 | 1,836 |
| | \$ 15,326 |

The following table presents the components of accounts payable and other liabilities:

| | As of December 31, 2005 2004 (in thousands) | |
|--|--|------------|
| Accounts payable | \$ 17,937 | \$ 22,029 |
| Accrued real estate taxes | 12,652 | 11,620 |
| Accrued personnel cost | 15,711 | 13,124 |
| Accrued interest | 15,330 | 14,164 |
| Prepaid revenue and deposits | 28,641 | 27,489 |
| Taxes payable | 15,765 | 18,086 |
| Accrued expense related to exploration of strategic alternatives | 11,350 | |
| Derivatives liabilities (see Note 14) | 23,997 | 41,675 |
| Other accrued expenses and liabilities | 40,052 | 32,465 |
| Total accounts payable and other liabilities | \$ 181,435 | \$ 180,652 |

Note 8 Lines of Credit

The following table summarizes our lines of credit:

| | December 31, 2005 | December 31, 2004 | Weighted Average interest rate at December 31, 2005 | Weighted Average interest rate at December 31, 2004 |
|--|----------------------|----------------------|---|---|
| | (in thousands) | | | |
| Unsecured domestic line of credit | \$ 233,500 | \$ 297,300 | 5.46% | 3.52% |
| Unsecured domestic term loan credit facility | 350,000 | 100,000 | 5.76% | 3.53% |

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| | | | |
|------------|------------|-------|-------|
| \$ 583,500 | \$ 397,300 | 5.64% | 3.52% |
|------------|------------|-------|-------|

In 2005, we entered into a three-year unsecured domestic credit agreement, which includes a revolving credit facility with a group of banks to borrow up to \$350 million and a \$350 million term loan facility that matures in February 2008. We borrowed the entire available \$350 million on the term loan facility and used the proceeds to fund the acquisition of the remaining interest in Shurgard Europe (See Note 5), to finance other acquisitions (See Note 4) and the development of certain of our properties, and to repay borrowings under the revolving credit facility. The revolving credit facility can be extended for one year at our option for a fee. The

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

revolving credit facility and the term loan require monthly interest payments at LIBOR plus 0.90% and LIBOR plus 1.10%, respectively, at December 31, 2005. Downgrades made by bond rating agencies in July 2005 to our senior unsecured debt rating resulted in an increase of 0.2% (included in above rates) in our interest rate on the domestic line of credit and term loan agreements. As of December 31, 2005, availability under the revolving credit facility was \$116.5 million. The domestic credit agreement requires us to maintain quarterly maximum total debt and secured debt to gross asset value ratios and minimum adjusted EBITDA to fixed charges and unencumbered net operating income to unsecured interest expense ratios. The financial covenants also require us to maintain a minimum tangible net worth. A breach of these covenants and other various covenants may result in an acceleration of the maturity of amounts outstanding. The domestic credit agreement restricts our distributions to a maximum of 105% of Adjusted Funds from Operations (Adjusted FFO) for up to four consecutive quarters; after that it must not exceed 95% of Adjusted FFO. Adjusted FFO is defined in the domestic credit agreement as (i) net income (calculated in accordance with GAAP) excluding non-recurring gains and losses on or from operating properties; plus (ii) depreciation and amortization; and after adjustments for unconsolidated subsidiaries. Adjusted FFO excludes the effects of charges and costs associated with the takeover proposal and exploration of strategic alternatives. Contributions to Adjusted FFO from unconsolidated subsidiaries are reflected in Adjusted FFO in proportion to borrower's share of such unconsolidated subsidiaries. The quarterly distributions did not reach 95% of the Adjusted FFO in 2005. As of December 31, 2005, we were in compliance with these financial covenants.

As of December 31, 2004, we had an unsecured domestic line of credit to borrow up to \$360 million, an unsecured term loan agreement for an additional \$100 million and an unused line of credit for the Storage Center Trust available for the financing of the properties under our tax retention operating leases. These facilities required monthly interest payments at LIBOR plus 1.25%. Both facilities matured on February 26, 2005 and we refinanced them with borrowings on our new credit facilities discussed above.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 Notes Payable**

Notes payable consisted of the following:

| | As of December 31, | |
|--|--------------------|------------|
| | 2005 | 2004 |
| | (in thousands) | |
| <i>Domestic Notes payable (1)</i> | | |
| 5.875% senior unsecured notes due in 2013 | \$ 200,000 | \$ 200,000 |
| 7.75% senior unsecured notes due in 2011 | 200,000 | 200,000 |
| 7.625% senior unsecured notes due in 2007 | 50,000 | 50,000 |
| Fixed rate mortgage notes payable | 167,331 | 169,510 |
| Maturity dates range from 2006 to 2015 | | |
| Interest rates range from 4.95% to 8.9% | | |
| Variable rate mortgage notes payable | 81,410 | 75,231 |
| Maturity dates range from 2006 to 2010 | | |
| Interest rates range from 6.29% to 7.25% | | |
| <i>European Notes payable (1)</i> | | |
| Collateralized 325 million notes payable due in 2011 | 384,889 | 443,299 |
| Interest rate of 2.68% (EURIBOR + 0.51%) | | |
| First Shurgard and Second Shurgard | 185,931 | 137,764 |
| Senior credit agreements | | |
| Maturity dates range from 2008 to 2009 | | |
| Interest rate of 4.58% (EURIBOR + 2.25%) | | |
| Capital leases | 6,010 | 11,112 |
| Maturity dates range from 2011 to 2052 | | |
| Interest rates range from 6% to 14% | | |
| | 1,275,571 | 1,286,916 |
| Discount on domestic senior notes payable | (610) | (695) |
| Premium on domestic mortgage notes payable | 759 | 981 |
| Total Notes Payable | 1,275,720 | 1,287,202 |

(1) All maturities and interest rates are as of December 31, 2005.

First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million (\$322.7 million as of December 31, 2005). As of December 31, 2005, the available amount under those credit facilities was, in aggregate, 115.5 million (\$136.8 million). Our draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis and can be limited if the completion of projects is not timely and if we have certain cost overruns. The credit facilities also require us to maintain a maximum loan to value of the collateral ratio and a minimum debt service ratio. In December 2004, we notified the agent for the lenders of First Shurgard's credit facility that First Shurgard would require modifications to certain of its covenants in order to be in compliance. The lenders agreed to modifications of these covenants in February 2005. No default or acceleration of the credit facility was declared by the lenders. As of December 31, 2005, we were in compliance with the revised covenants. Borrowings under both the First Shurgard and Second Shurgard credit facilities were such that they could only be used to fund property development costs of First Shurgard and Second Shurgard. In January 2006, we amended Second Shurgard's credit agreement such as to allow for borrowings for up to 21.9 million (\$25.9 million as of December 31, 2005) to be used for acquisition of existing self-storage properties including properties under capital leases.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In December 2005, we renewed a domestic variable rate mortgage note payable at maturity. The note is collateralized by 21 self-storage properties and bears interest of LIBOR plus 1.5%. This amendment increased the principal amount of the borrowing by \$0.7 million to \$67.0 million and extended the term to December 2008.

In February 2005, we entered into one new domestic mortgage agreement to partially finance the purchase of a storage center in North Carolina (see Note 4). This \$2.2 million note matures in February 2010 and bears monthly interest of LIBOR plus 2%. At December 31, 2005, we had three loan agreements to develop three new properties. We had drawn \$3.5 million under these loans and \$5.0 million remained available for draw. Also, in July 2005, we refinanced two of our fixed interest rate mortgages into one new \$3.1 million fixed interest rate mortgage bearing a 4.95% interest rate and maturing in August 2015.

As of December 31, 2005 and 2004, our notes payable were collateralized by storage centers with net book values of \$1.42 billion and \$1.18 billion, respectively.

At December 31, 2005, scheduled amortization and maturities of all notes payable, excluding capital leases, for the next five years and thereafter were as follows (in thousands):

| Year | Total |
|-------------|---------------------|
| 2006 | \$ 9,226 |
| 2007 | 64,310 |
| 2008 | 230,542 |
| 2009 | 37,976 |
| 2010 | 10,631 |
| Thereafter | 916,876 |
| | \$ 1,269,561 |

Participation Rights

In 2000 and prior, we formed joint ventures in which our partners' rights, including rights to redeem their interests at amounts determined in the related agreements, were substantively participating mortgages. We accounted for these joint ventures as financing arrangements, and, as such, recognized all activities related to those properties in our financial statements. On the formation of the ventures, we recognized participation rights liabilities and related discounts on the underlying liabilities for the estimated fair values of the partners' shares of the joint ventures based on the best evidence available to us. The discounts were amortized as a component of interest expense based on estimated dates of redemptions. We retired our remaining participation rights in December 2004, when we acquired our joint venture partner's interest. In 2004 and 2003, we recognized \$1.1 million and \$5.5 million, respectively, in amortization income. The adjustments to amortization were based on re-evaluations of our estimated participation rights liability each period based on the performance of the related properties and estimates of the rights' retirement dates. Also, in 2003 we recognized a \$7.5 million impairment loss in relation with four properties associated with these participation rights.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 10 Lease Obligations**

We lease certain parcels of land, buildings and equipment. We also have five properties in Belgium and the Netherlands under capital leases with purchase options on the Belgian properties exercisable in 2011 and 2022. The future minimum rental payments required under these leases are as follows (in thousands):

| | Operating leases (1) | Capital leases | Total |
|------------|---------------------------------|---------------------------|-------------------|
| 2006 | \$ 9,509 | \$ 618 | \$ 10,127 |
| 2007 | 8,512 | 630 | 9,142 |
| 2008 | 7,265 | 642 | 7,907 |
| 2009 | 6,584 | 654 | 7,238 |
| 2010 | 5,200 | 604 | 5,804 |
| Thereafter | 143,852 | 33,784 | 177,636 |
| | \$ 180,922 | \$ 36,932 | \$ 217,854 |

- (1) Certain of our European land operating leases have indefinite terms or extension options exercisable at discretion of the lessee. For such land leases we have disclosed operating lease obligations over the estimated useful life of the related property.

The present value of net minimum capital lease payments at December 31, 2005, was as follows (in thousands):

Present value of net minimum capital lease payments

| | |
|-------------------------------------|-----------|
| Capital lease total future payments | \$ 36,932 |
| Amount representing interest | (30,922) |

| | |
|--|-----------------|
| Present value of net minimum capital lease payments | \$ 6,010 |
|--|-----------------|

Expenses under operating leases were approximately \$8.4 million, \$6.3 million and \$5.6 million for the years ended December 31, 2005, 2004 and 2003, respectively. Certain of our land leases include escalation clauses, and we recognize related lease expenses on a straight-line basis. Several of our lease agreements have rent amounts contingent on our storage centers' revenue. Our lease expense due to contingent rent was \$280,000, \$150,000 and \$180,000, in 2005, 2004 and 2003, respectively.

The net book value of properties under capital leases was \$6.1 million and \$9.8 million as of December 31, 2005 and 2004, respectively, net of accumulated depreciation of \$1.2 million and \$2.9 million, respectively. We recognize depreciation expense on these properties in depreciation and amortization on the consolidated statements of operations.

Note 11 Restructuring and Exit Costs

Upon acquiring the remaining minority interest, we announced a plan to change the management structure of Shurgard Europe, including the consolidation of certain national offices, and recorded charges associated with these activities, including certain termination benefits payable to certain involuntarily terminated employees and lease termination costs relating to certain leased office facilities that we ceased using in 2005. Under this plan, we also announced that we would undertake further cost reduction initiatives through the end of 2007. In 2005, we started implementing cost reductions by consolidating certain departments and we reduced the number of

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

positions in operations management, real estate and finance groups in various countries. We recorded the charges related to these cost reduction initiatives as the various initiatives take effect. We also recognized a liability for lease termination costs based on the remaining rental payments under the lease less estimated market sublease payments we might receive should we sublease the space. The operating leases for facilities we have ceased to use expire in 2009. Under this plan, we recognized expenses of \$2.4 million in 2005, including \$2.0 million in severance payments and \$0.4 million for lease obligations that are included in general administrative and other on our consolidated statement of operations. As of December 31, 2005, we had an outstanding liability of \$630,000. We expect to incur additional expenses in 2006 and 2007 as further reorganization decisions are made.

In December 2001 and 2003, our board of directors approved exit plans to discontinue our containerized storage operations. In connection with these decisions, we accrued incremental costs expected to be incurred during the closing of the warehouses affected by our exit plan. As of December 31, 2005, we had a remaining liability under warehouse operating lease obligations through 2008. The liability is recognized at its fair value for the remaining lease rentals, reduced by estimated sublease rentals and is reevaluated periodically. As of December 31, 2005, we had entered into subleasing agreements for all seven warehouses, including some on a month-to-month basis.

Since 2001, we have incurred \$5.3 million of exit costs related to containerized storage operations. The following table summarizes costs incurred for exiting our containerized storage operations since January 2003:

| | (in thousands) |
|--|----------------|
| Total accrued exit costs as of January 1, 2003 | \$ 1,019 |
| Payments made | (507) |
| Total accrued exit costs as of December 31, 2003 | 512 |
| Exit costs | 2,276 |
| Payments made | (1,304) |
| Total accrued exit costs as of December 31, 2004 | 1,484 |
| Exit costs | 271 |
| Payments made | (982) |
| Total accrued exit costs as of December 31, 2005 | \$ 773 |

Note 12 Income Taxes

We elected to be taxed as a REIT under the Internal Revenue Code commencing with our taxable year ended December 31, 1994. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income we distribute to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not qualify as a REIT for four subsequent years. Even if we qualify for taxation as a REIT, we are subject to certain state and local taxes on income and property, and to federal income and excise taxes on undistributed taxable income. In addition, taxable income from non-REIT activities managed through our taxable REIT subsidiaries is subject to federal, state and local income taxes and our European subsidiaries are subject to certain income taxes in the respective jurisdictions of the countries in which they operate. As of December 31, 2005, we believe we were in compliance with REIT requirements.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following reconciles our net income to the adjusted REIT taxable income:

| | 2005 (estimate) | 2004 (actual) | 2003 (actual) |
|--|--------------------|------------------|------------------|
| | (in thousands) | | |
| Net income | \$ 11,659 | \$ 45,295 | \$ 37,638 |
| Adjustments to earnings of European subsidiaries | 53,680 | 39,775 | 20,329 |
| Costs related to takeover proposal and exploration of strategic alternatives | 13,775 | | |
| Stock grant compensation | (5,168) | (4,782) | (2,353) |
| Settlement reserves | (2,693) | 2,790 | 144 |
| Investment in U.S. partnerships and joint ventures | 2,280 | 365 | 9,055 |
| Travel and entertainment | 302 | 273 | 222 |
| Unrealized (gain) loss on financial instruments | (1,951) | (630) | 2,194 |
| Adjustments to earnings of taxable REIT subsidiaries | (749) | 218 | 3,035 |
| Depreciation and amortization | 10,702 | 9,860 | 597 |
| Gain on disposition of assets | 284 | 193 | 2,540 |
| Workmen's compensation | (343) | 1,840 | 1,336 |
| Unrealized loss (gain) on foreign exchange | 2,473 | (2,172) | (230) |
| Professional fees | 843 | (2,749) | 4,781 |
| Prepaid rent | (143) | 307 | 314 |
| Section 162(m) limitation | 183 | 1,171 | |
| Accrued compensation | 846 | 915 | 453 |
| Other items | 71 | 68 | (208) |
| Adjusted REIT taxable income subject to the 90% distribution requirement | \$ 86,051 | \$ 92,737 | \$ 79,847 |

For income tax purposes, distributions paid to common shareholders consist of ordinary income, capital gains, return of capital or a combination thereof. For the years ended December 31, 2005, 2004 and 2003, distributions paid per share were taxable as follows:

| | 2005 | | 2004 | | 2003 | |
|-------------------|---------|------------|---------|------------|---------|------------|
| | Amount | Percentage | Amount | Percentage | Amount | Percentage |
| Ordinary income | \$ 1.47 | 65.9% | \$ 1.52 | 69.4% | \$ 1.67 | 77.7% |
| Capital gains | 0.22 | 9.9% | 0.32 | 14.6% | 0.06 | 2.8% |
| Return of capital | 0.54 | 24.2% | 0.35 | 16.0% | 0.42 | 19.5% |
| | \$ 2.23 | 100.0% | \$ 2.19 | 100.0% | \$ 2.15 | 100.0% |

Additionally, during 2005 we paid dividends on our Series C and Series D cumulative redeemable preferred stock of \$1.63 and \$1.64 per share, respectively. Of these amounts, 87.0% consisted of ordinary dividends and 13.0% consisted of capital gain dividends.

In 2005, we transferred ownership interests of certain properties from a taxable entity to the REIT and recorded approximately \$410,000 of U.S. federal and state income tax expense related to this transaction. Also, certain European subsidiaries have started generating taxable income resulting in income tax expense in 2005. In 2003, we recognized a \$1.6 million tax expense for Recom, a Belgian subsidiary that we started consolidating that year. As of December 31, 2005 and 2004, we had tax liabilities of \$870,000 and \$1.9 million, respectively.

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Consolidated U.S. income from continuing operations before income tax expense was \$27.8 million, \$63.6 million and \$40.7 million for 2005, 2004 and 2003, respectively. The corresponding amounts from foreign based operations were losses of \$27.7 million, \$34.1 million and \$3.8 million, respectively.

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Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our income tax expense consisted of the following components:

| | 2005 | 2004 | 2003 |
|--------------------------|----------------|-------|----------|
| | (in thousands) | | |
| Federal | \$ 386 | \$ 27 | \$ |
| State | 73 | | |
| Foreign | 177 | 45 | 1,611 |
| Total income tax expense | \$ 636 | \$ 72 | \$ 1,611 |

The components of deferred tax assets (liabilities) for Shurgard's taxable operations are included in the table below. As of December 31, 2005 and 2004, we had established a valuation allowance for the value of our deferred tax assets. Given the history of losses of our taxable operations, we have concluded there is insufficient evidence at this point to justify recognition of the benefits of these deferred tax assets on our books. Our domestic TRS entities have started to generate taxable income, which resulted in a reduction of our domestic deferred tax assets as of December 31, 2005 compared to 2004. As of December 31, 2005, we had U.S. federal net operating loss carryforwards of \$24.1 million that will expire starting in 2012. Additionally, as of December 31, 2005, we had U.S. state and local net operating loss carryforwards of \$11.8 million that will start expiring in 2006. We had \$307.4 million of net operating loss carryforwards from our European operations as of December 31, 2005. This amount may be carried forward indefinitely. On March 6, 2006, we entered into an Agreement and Plan of Merger (see Note 22) with Public Storage, Inc., that contemplates a merger whereby we will be merged with and into a subsidiary of Public Storage, Inc. Upon merger it is possible that part of the net operating loss carryforwards described above could be lost, in whole or in part, depending upon the type of transaction.

The foreign and domestic components of our net deferred tax asset were as follows:

| | 2005 | 2004 |
|---|----------------|-----------|
| | (in thousands) | |
| Domestic | \$ 9,627 | \$ 10,592 |
| Foreign | 95,062 | 77,019 |
| Net deferred tax asset before valuation allowance | 104,689 | 87,611 |
| Valuation allowance | (104,689) | (87,611) |
| Net deferred tax asset | \$ | \$ |

Significant components of our deferred tax assets and liabilities were as follows:

| | 2005 | 2004 |
|------------------------------------|----------------|------------|
| | (in thousands) | |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 106,580 | \$ 105,888 |
| Net unrealized loss on derivatives | 5,575 | |
| Losses on asset recognition | 591 | 503 |
| Accrual of warehouses exit costs | 263 | 595 |

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| | | |
|---|-----------|----------|
| Other | 791 | 1,164 |
| Deferred tax liabilities: | | |
| Depreciation | (5,579) | (9,028) |
| Exchange translation on bonds payable | (3,186) | (6,888) |
| Other | (346) | (4,623) |
| Net deferred tax asset before valuation allowance | 104,689 | 87,611 |
| Valuation allowance | (104,689) | (87,611) |
| Net deferred tax asset | \$ | \$ |

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We increased our valuation allowance for deferred tax assets by \$17.1 million, \$78.2 million and \$1.0 million in 2005, 2004 and 2003, respectively.

Note 13 Shareholders Equity

Shurgard has 40 million shares of preferred stock authorized, of which 2.8 million shares have been designated as Series A junior participating preferred stock (none of which were issued or outstanding at December 31, 2005), 2 million shares have been designated as Series C cumulative redeemable preferred stock (all of which were issued and outstanding at December 31, 2005) and 3.45 million shares have been designated as Series D cumulative redeemable preferred stock (all of which were issued and outstanding at December 31, 2005). The board of directors is authorized to determine the rights, preferences and privileges of the preferred stock including the number of shares constituting any such series and the designation thereof.

Our Series C and Series D cumulative redeemable preferred stock earn quarterly dividends at rates of 8.70% and 8.75% of their liquidation preferences, respectively. Our series C cumulative redeemable preferred stock became callable at our option in December 2003, at a redemption price of \$25 per share. Our Series D cumulative redeemable preferred Stock became callable at our option in February 2006, at a redemption price of \$25 per share. On December 1, 2005, our board of directors declared preferred dividends for our Series C and Series D cumulative redeemable preferred stock for the fourth quarter of 2005 at a rate of \$0.54 and \$0.55 per share, respectively. The aggregate amount of these preferred stock dividends was \$3.0 million and was accrued in other liabilities on the consolidated balance sheet as of December 31, 2005.

In 2005, we acquired CPI, which owns two storage properties in Florida (see Note 4). We issued 127,684 shares of Class A common stock (\$5.5 million) in connection with this purchase. We allocated the amount of the consideration to storage centers and related assets acquired.

In October 2003, we issued 395,000 shares of our Class A common stock in connection with our purchase of our European operating partners interest in Recom and Shurgard Europe.

On July 11, 2003, we raised approximately \$178.2 million through the sale to the public of 5.75 million shares of Class A common stock. We used approximately \$101.6 million of the proceeds to fund the acquisition of an additional 19.7% ownership interest in Shurgard Europe. We used the additional proceeds to repay a portion of the indebtedness under our line of credit, which included amounts we borrowed to purchase the 36 properties that we previously operated under our tax retention operating leases and to fund our additional investment in Recom.

In June 2003, we issued 3,050,000 shares of Class A common stock in connection with our purchase of Minnesota Mini-Storage at closing and issued an additional 50,000 shares in September 2004 when the transaction was finalized.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 14 Derivative Financial Instruments**

We use derivative instruments to manage risks associated with movements in interest rates and foreign currency exchange rates. We report derivative financial instruments at fair value on our consolidated balance sheets in other assets and other liabilities and had the following balances as of December 31:

| | December 31, 2005 | December 31, 2004 |
|-------------------------------------|----------------------|----------------------|
| | (in thousands) | |
| Assets | | |
| Debt-related contracts | \$ 2,792 | \$ 5,612 |
| Foreign currency exchange contracts | 1,917 | 5,622 |
| | \$ 4,709 | \$ 11,234 |
| Liabilities | | |
| Debt-related contracts | \$ (21,778) | \$ (39,586) |
| Foreign currency exchange contracts | (2,219) | (2,089) |
| | \$ (23,997) | \$ (41,675) |

As of December 31, 2005 and 2004, the balance in accumulated other comprehensive income (loss) related to derivative transactions was a loss of \$9.5 million and of \$9.9 million, respectively.

In the United States we had entered into interest rate swaps that were not designated as hedges, which matured in February 2005 and were settled for \$14.9 million.

In March 2002, we entered into a fixed to variable interest rate swap for \$50 million of the senior notes payable due in 2004. We designated this hedge as a fair value hedge. We recognized the gain or loss on the swap and the bonds in earnings and adjusted the carrying value of the bonds accordingly. On August 20, 2002, we terminated these swaps at a gain of \$2 million. We amortized this gain to interest expense as an adjustment to the carrying value of the bonds over the remaining life of the bonds using the effective interest method. For the years ended December 31, 2004 and 2003, interest expense was reduced by \$380,000 and \$1.2 million respectively, for amortization of the gain. We repaid the bonds in full in April 2004.

Shurgard Europe has entered into an interest rate swap to effectively fix EURIBOR at 3.714% through October 2011 on 325 million of variable rate debt. This swap is designated as a cash flow hedge and was a liability of \$12.9 million and \$12.7 million at December 31, 2005 and 2004, respectively. Shurgard Europe has also entered into foreign currency exchange derivatives designated as cash flow hedges. These instruments were liabilities of \$1.7 million and assets of \$940,000 at December 31, 2005 and assets of \$2.1 million and liabilities of \$1.5 million at December 31, 2004. We had undesignated interest rate caps for interest rate changes between October 2011 and October 2014 that we entered into as part of Shurgard Europe's bond issuance. Shurgard Europe's interest rate cap was an asset of \$2.8 million at December 31, 2005, and expires in October 2014. To offset the earnings impact of this cap, we sold two interest rate caps with terms, that combined, reciprocate those of Shurgard Europe's cap. These caps were liabilities of \$3.0 million at December 31, 2005.

First Shurgard has entered into interest rate swaps designated as cash flow hedges of interest payments on future borrowings under its credit facility. In June 2005, we determined that one of these swaps ceased to be an effective hedge and no longer qualified for hedge accounting. Accordingly, we are reclassifying the related accumulated other comprehensive loss of 230,000 (\$280,000 at December 31, 2005) to earnings through the swaps' maturity in March 2006. We expect to reclassify approximately \$95,000 to earnings for this instrument in 2006.

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(The weighted-average notional amounts and fixed pay rates of these swaps still designated as cash flow hedges are as follows (euros in millions):

| | 2006 | 2007 | 2008 |
|----------------------------|-------|-------|------|
| Notional amounts | 123.6 | 118.8 | 45.1 |
| Weighted-average pay rates | 3.7% | 3.8% | 3.8% |

The swap agreements were liabilities of \$2.7 million and \$4.1 million at December 31, 2005 and 2004, respectively.

First Shurgard has also entered into foreign currency exchange derivatives designated as cash flow hedges or economic hedges of net investments in subsidiaries outside the euro zone. These instruments, which mature in May 2008, were liabilities of \$0.5 million at December 31, 2005 and assets of \$0.8 million and liabilities of \$0.5 million at December 31, 2004. We recognized a gain of \$0.8 million and \$0.3 million in currency translation adjustment on our consolidated balance sheet for those derivatives for the same periods.

In connection with financing agreements, First Shurgard also entered into call options maturing on May 27, 2008, for the purchase of 15 million equating to \$18.6 million at a fixed exchange rate. This transaction does not qualify for hedge accounting. These instruments were assets of \$970,000 and \$2.7 million at December 31, 2005 and 2004, respectively.

Second Shurgard has entered into interest rate swaps designated as cash flow hedges of interest payments on future borrowings under its credit facility. The weighted-average notional amounts and fixed pay rates of these swaps are as follows (euros in millions):

| | 2006 | 2007 | 2008 | 2009 |
|----------------------------|------|-------|-------|------|
| Notional amounts | 91.4 | 123.3 | 125.2 | 69.3 |
| Weighted-average pay rates | 3.8% | 3.7% | 3.7% | 3.7% |

These swap agreements were liabilities of \$3.1 million and \$2.8 million at December 31, 2005 and 2004, respectively.

In 2005 and 2004, we recognized a loss of \$0.4 million and \$0.7 million, respectively, for hedge ineffectiveness in (interest expense/foreign exchange gain/loss) in our consolidated statements of operations.

Note 15 Foreign operations

We conduct our foreign operations through Shurgard Europe and other European subsidiaries, which we started consolidating as of January 1, 2004. Our European revenues amounted to \$126.5 million, or 26%, and \$102.1 million, or 24%, of total revenue for the years ended December 31, 2005 and 2004, respectively.

As a result of our international operations, we recorded a \$9.7 million foreign exchange loss, a \$6.2 million foreign exchange gain and a \$430,000 foreign exchange loss for the years ended December 31, 2005, 2004 and 2003, respectively.

Through July 1, 2005, we were exposed to foreign currency exchange risk related to intercompany debt with or between our European subsidiaries that is not denominated in the functional currency of the subsidiary or the investee. In connection with the acquisition of the remaining interest in Shurgard Europe, we reevaluated our

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

plans and expectations with respect to repayment of certain intercompany debt with our European subsidiaries and determined that it is prospectively a long-term-investment as defined in SFAS 52, Foreign Currency Translation. Accordingly, we do not recognize exchange gains or losses on such intercompany debt in our consolidated statements of operations. Rather, beginning July 1, 2005, we report these translation adjustments as a component of other comprehensive income (loss). We had a foreign exchange loss of \$9.2 million in net income related to this intercompany debt during 2005 compared to a gain of \$6.5 million during 2004. We recorded losses of \$1.3 million related to this intercompany debt during 2005, as a component of other comprehensive income (loss).

Included in accumulated other comprehensive income was a cumulative foreign currency translation adjustment loss of \$4.1 million as of December 31, 2005, and a gain of \$12.7 million as of December 31, 2004.

Note 16 Stock Compensation and Benefit Plans

Summary of Stock Compensation Plans

Our stock compensation plans provide for the granting of options, as well as restricted stock awards, performance awards, stock unit awards and distribution equivalent rights. As of December 31, 2005, we had outstanding grants under several stock option and long-term incentive compensation plans. Our 1993 Stock Option Plan for Employees and Stock Option Plan for Non-employee Directors, as amended during 1995, expired in 2003. Our 1995 Long-Term Incentive Compensation Plan expired in 2000, and the remaining outstanding options under the plan will expire in or before 2010.

In 2005 and 2004, we made grants under both the 2000 Long-Term Incentive Compensation Plan (the 2000 Plan), and the 2004 Long-Term Incentive Compensation Plan (the 2004 Plan) that was approved by shareholders in June 2004. In 2003, we made grants under the 2000 Plan. The purpose of the 2004 Plan is to enhance the long-term profitability and shareholder value of the Company by offering incentives and rewards to those employees, officers, directors, consultants and agents of Shurgard and its subsidiaries who are key to our growth and success. The 2004 Plan is also intended to encourage such persons to remain in the service of Shurgard and its subsidiaries and to acquire and maintain stock ownership in Shurgard. Both the 2000 Plan and the 2004 Plan permit the plan administrator to authorize loans, loan guarantees or installment payments to assist award recipients in acquiring shares pursuant to awards, but contain certain limitations imposed by tax legislation. Both plans require mandatory acceleration of vesting in the event of certain mergers and consolidations or a sale of substantially all the assets or a liquidation of Shurgard, except where such awards are assumed or replaced in the transaction. The 2000 Plan and the 2004 Plan allow for grants to consultants and agents as well as our officers, directors and key employees.

The 2000 Plan provides for the granting of up to 2.8 million shares of our Class A common stock. Approximately 20,000 authorized shares remained available for future grants under this plan as of December 31, 2005. The 2004 Plan provides for the granting of up to 3.5 million shares of our Class A common stock. Approximately 3.1 million authorized shares were available for future grants under this plan as of December 31, 2005.

Stock Options

Each stock option provides the recipient the right to purchase shares of our Class A common stock at the fair market value of our common stock as of the date of grant. Stock options have a ten-year term from the grant date and vest over a three-year period under the 2000 Plan and a minimum of four years under the 2004 Plan with a vesting schedule determined by the plan administrator at the time of grant.

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The fair value of options granted under our stock option plans is estimated on the date of grant using the Black-Scholes option-pricing model with weighted-average assumptions as follows:

Weighted average assumptions used for**Black-Scholes option-pricing model**

| | 2005 | 2004 | 2003 |
|---------------------------|---------|---------|---------|
| Dividend yield | 4.02% | 5.55% | 7.97% |
| Expected volatility | 20% | 22% | 23% |
| Risk free interest rate | 4.43% | 3.59% | 2.94% |
| Expected life (in years) | 5.5 | 5.5 | 5.6 |
| Fair value per option (1) | \$ 8.83 | \$ 5.04 | \$ 3.12 |

(1) Weighted averages of option grants during each period.

The following table summarizes changes in options outstanding under the plans:

| | 2005 | | 2004 | | 2003 | |
|---------------------------|---------------------|--|---------------------|--|---------------------|--|
| | Number of Shares | Weighted average exercise price | Number of Shares | Weighted average exercise price | Number of Shares | Weighted average exercise price |
| Outstanding, January 1, | 2,727,970 | \$ 31.64 | 2,887,294 | \$ 28.21 | 2,896,461 | \$ 26.17 |
| Granted | 402,180 | \$ 56.07 | 605,203 | \$ 42.09 | 492,350 | \$ 36.43 |
| Forfeited | (90,533) | \$ 37.88 | (88,262) | \$ 33.19 | (72,283) | \$ 23.67 |
| Exercised | (222,030) | \$ 29.11 | (676,265) | \$ 26.17 | (429,234) | \$ 29.46 |
| Outstanding, December 31, | 2,817,587 | \$ 35.11 | 2,727,970 | \$ 31.64 | 2,887,294 | \$ 28.21 |
| Exercisable, December 31, | 1,896,545 | \$ 29.04 | 1,727,562 | \$ 27.13 | 1,982,611 | \$ 25.67 |

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

| Range of exercise prices per share | Options outstanding | | | Options exercisable | |
|---------------------------------------|----------------------|---------------------------------------|---|----------------------|---------------------------------------|
| | Number of options | Weighted average exercise price | Weighted average remaining contractual life | Number of options | Weighted average exercise price |
| \$21.63 to \$25.99 | 756,390 | \$ 23.28 | 4.2 years | 756,390 | \$ 23.28 |
| \$26.00 to \$31.99 | 746,282 | \$ 29.76 | 5.0 years | 746,282 | \$ 29.76 |
| \$32.00 to \$41.99 | 433,008 | \$ 37.21 | 7.9 years | 282,655 | \$ 37.14 |
| \$42.00 to \$57.71 | 881,907 | \$ 48.75 | 9.3 years | 111,218 | \$ 42.77 |
| | 2,817,587 | \$ 35.11 | 6.6 years | 1,896,545 | \$ 29.04 |

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Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Restricted Stock*

Restricted shares entitle the grantees to all shareholder rights with respect to voting and receipt of dividends during the restriction period, except restricted stock may not be sold, assigned, transferred, pledged or otherwise disposed of prior to vesting. The shares generally vest ratably over 5 years. If a grantee's employment is terminated prior to the end of the five-year period, the unvested shares will be forfeited. The table below presents the activity for restricted shares:

| | 2005 | 2004 | 2003 |
|---|--|----------|----------|
| | (in thousands except share and per share data) | | |
| Restricted shares granted (1) | 37,528 | 51,130 | 101,650 |
| Restricted shares forfeited | (8,656) | (8,317) | (3,651) |
| Average fair value of restricted shares granted | \$ 56.66 | \$ 41.68 | \$ 37.08 |
| Compensation expense for restricted shares | \$ 1,575 | \$ 2,559 | \$ 948 |

- (1) The 2003 grants include a special award to an officer in December 2003 of 38,889 shares of restricted stock with an accelerated vesting term of six months and 17,584 shares with ratable vesting over a four-year term commencing in December 2003.

Other Stock Compensation and Benefit Plans

In 1996, we established an employee stock purchase plan under which U.S. employees can elect to purchase Shurgard stock through regular periodic payroll deductions without paying broker commissions. This plan provides for potential price discounts of up to 15%. Since January 2000, a 10% discount has been offered to employees under this plan.

We have an employee retirement savings plan, which includes an employee incentive savings plan (the 401(k) plan) and an employee stock ownership plan (the ESOP), in which substantially all our U.S. employees are eligible to participate. Under the 401(k) plan, each year, employees may contribute an amount not to exceed the maximum allowable by law. We match a portion of employee contributions in cash. Our expense for contributions to the 401(k) plan was approximately \$880,000, \$680,000 and \$580,000 for 2005, 2004 and 2003, respectively. Employees may direct the investment of all contributions to the 401(k) plan in one or more of ten mutual fund investment options administered by a third party, but cannot invest them directly in Shurgard stock. Under our ESOP, U.S. employees may receive discretionary annual awards of Shurgard stock that are determined as a percentage of the eligible employees' salaries. ESOP contributions are funded in cash, which the plan uses to purchase Shurgard stock on the open market. Funded shares are held in individual participant accounts and may not be sold by participants while they are in the employ of Shurgard. Our expense for contributions to the ESOP was approximately \$800,000, \$720,000 and \$620,000 for 2005, 2004 and 2003, respectively.

In 2004, we implemented a stock appreciation rights plan in Europe whereby participants are entitled to receive a payment based on the appreciation of our common stock and dividends paid over the vesting period. The rights fully vest at the end of a three-year period and are generally forfeited if a participant's employment is terminated prior to maturity. We recognize a liability for these rights and adjust it each reporting period based on the current stock price and dividend rights accrued for all rights outstanding. The expense is recognized through earnings ratably over the three-year vesting period. If a right is forfeited, we reduce the liability to reflect the forfeiture and reverse the compensation expense previously recognized. In 2005, we recognized compensation expense of approximately \$760,000 related to this plan, compared to \$670,000 in 2004. Also, we recognized expenses of \$1.1 million and \$970,000 in 2005 and in 2004, respectively, for various defined contribution plans in Europe.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have entered into an agreement with each of our executive officers that provides for payments in the event that the officer's employment is terminated by us other than for cause, or by the employee for good reason, within two years after certain business combination transactions, including, but not limited to, the proposed merger with Public Storage, Inc. (Public Storage). In the event of such a termination, the officer would be entitled to payment of two and one-half times his or her annual salary plus his or her bonus. In addition, in the event the payments made under one of these agreements are subject to certain taxation, the officer would be entitled to additional payments necessary to reimburse him or her for such additional tax payment.

Note 17 Shareholder Rights Plan

In March 2004, we adopted an amended and restated rights agreement and declared a distribution of one right for each outstanding share of our common stock. The rights expire in March 2014. Under certain conditions, each right may be exercised to purchase one one-hundredth of a share of Series A junior participating preferred stock at a purchase price of \$110, subject to adjustment. The rights will be exercisable only if a person or group has acquired 10% or more of the outstanding shares of common stock, or following the commencement of a tender or exchange offer for 10% or more of such outstanding shares of common stock, other than in connection with a transaction approved by our board of directors. If a person or group acquires more than 10% of the then outstanding shares of common stock, each right will entitle its holder to purchase, common stock (or, in certain circumstances, cash, property or other securities of Shurgard) having a value equal to two times the exercise price of the right. In addition, if Shurgard is acquired in a merger or other business combination transaction other than a transaction approved by our board of directors, each right will entitle its holder to purchase that number of the acquiring company's common shares having a market value of twice the right's exercise price. We will be entitled to redeem the rights at \$0.0001 per right at any time prior to the earlier of their expiration or the time that a person has acquired a 10% position. In March 2006, we amended the rights agreement (i) to clarify that the rights agreement does not apply to, and the rights are not exercisable in connection with, our the Agreement and Plan of Merger (Merger Agreement) dated March 6, 2006, with Public Storage or the proposed merger that it contemplates and (ii) to provide that in addition to the expiration provisions set forth in the rights agreement, the rights will expire at the effective time of the proposed merger. The rights do not have voting or distribution rights, and until they become exercisable, have no dilutive effect on our earnings.

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 18 Net Income Per Common Share**

The following summarizes the computation of basic and diluted earnings per share:

| | 2005 | 2004 | 2003 |
|---|----------------------------------|-----------|-----------|
| | (in thousands except share data) | | |
| Results of operations Numerator | | | |
| (Loss) income from continuing operations | \$ (590) | \$ 29,466 | \$ 35,314 |
| Preferred distributions and other | (12,153) | (12,193) | (12,082) |
| (Loss) income from continuing operations available to common shareholders | (12,743) | 17,273 | 23,232 |
| Discontinued operations | 12,249 | 18,168 | 2,324 |
| Cumulative effect of accounting changes | | (2,339) | |
| Net (loss) income available to common shareholders | \$ (494) | \$ 33,102 | \$ 25,556 |
| Weighted average share amounts Denominator | | | |
| Basic weighted average shares outstanding | 46,660 | 45,968 | 40,406 |
| Effect of dilutive stock based awards | | 658 | 582 |
| Diluted weighted average shares outstanding | 46,660 | 46,626 | 40,988 |
| Basic per share amounts | | | |
| (Loss) income from continuing operations available to common shareholders | \$ (0.27) | \$ 0.37 | \$ 0.57 |
| Discontinued operations | 0.26 | 0.40 | 0.06 |
| Cumulative effect of accounting changes | | (0.05) | |
| Net (loss) income available to common shareholders | \$ (0.01) | \$ 0.72 | \$ 0.63 |
| Diluted per share amounts | | | |
| (Loss) income from continuing operations available to common shareholders | \$ (0.27) | \$ 0.37 | \$ 0.56 |
| Discontinued operations | 0.26 | 0.39 | 0.06 |
| Cumulative effect of accounting changes | | (0.05) | |
| Net (loss) income available to common shareholders | \$ (0.01) | \$ 0.71 | \$ 0.62 |

We have excluded the following non-dilutive stock options and unvested common stock awards for certain periods from the computation of diluted earnings per share, because the options' exercise prices were greater than the average market price of the common shares or the Company incurred a loss from continuing operations available to common shareholders during the reporting period:

| | 2005 | 2004 | 2003 |
|--------------------------|--------------------|--------------------|--------------------|
| Number of options | 2.8 million | 531,000 | 416,000 |
| Range of exercise prices | \$21.63 to \$57.71 | \$38.61 to \$43.68 | \$33.91 to \$37.60 |
| Expiration on or before | December 2015 | December 2014 | December 2013 |

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| | | | |
|--|---------|--------|--------|
| Unvested common stock awards | 113,000 | 41,000 | 94,000 |
| Note 19 Discontinued Operations | | | |

In 2004, we designated eight storage centers, six of which are located in California and the others in Texas and Washington, as discontinued operations. We sold six of those properties in 2004 for an aggregate gain of \$16.2 million. We sold the remaining two in 2005 for aggregate proceeds of \$14.1 million and an aggregate gain of \$6.4 million.

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Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In 2005, we sold one storage center in Arizona and two in Washington for aggregate proceeds of approximately \$10.7 million, resulting in aggregate gains of approximately \$5.4 million. We have presented the results of operations and gains on sales of these storage centers as discontinued operations for all periods presented. Furthermore, as of December 31, 2005, we had two storage centers designated as held for sale on our balance sheet. The results of operations of storage centers held for sale were included in our domestic Same Store segment (also see Note 25).

The following table summarizes income from discontinued operations:

| | 2005 | 2004 (in thousands) | 2003 |
|---|-----------|------------------------|----------|
| Discontinued operations: | | | |
| Revenue | \$ 903 | \$ 4,355 | \$ 5,360 |
| Operating expense | (386) | (1,788) | (2,194) |
| Depreciation and amortization | (99) | (625) | (842) |
| Operating income from discontinued operations | 418 | 1,942 | 2,324 |
| Gain on sale of properties | 11,831 | 16,226 | |
| Discontinued operations | \$ 12,249 | \$ 18,168 | \$ 2,324 |

Note 20 Segment Reporting

Shurgard currently has four reportable segments: Domestic Same Store and New Store and European Same Store and New Store. We have adjusted the previously reported segment information for 2003 to include our European segments' information; however, the new composition of our segments is additive only and does not change previously reported segment results for our domestic operations. For the purpose of reconciliation of the segment reporting to the consolidated statement of operations, the 2003 results of our European segments are classified in unconsolidated joint ventures.

Our definition of Same Store includes existing storage centers acquired prior to January 1 of the previous year, as well as developed properties that have been operating for a full two years as of January 1 of the current year. We project that newly developed properties will reach stabilization in approximately 24-48 months. New Store includes existing facilities that had not been acquired as of January 1 of the previous year, as well as developed properties that have not been operating a full two years as of January 1 of the current year.

These reportable segments allow us to focus on improving results from our existing real estate assets and renting up our new facilities. We evaluate each segment's performance based on net operating income (NOI) and NOI after indirect and leasehold expenses. NOI is defined as storage center operations revenue less direct operating expenses, but does not include any allocation of indirect operating expenses. Indirect and leasehold expenses include land or building lease expense and certain shared property costs such as bank fees, district and corporate management, purchasing, national contracts personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, legal services, human resources and accounting. Indirect operating expenses are allocated to storage centers based on number of months in operation during the period and do not include containerized storage operations, internal real estate acquisition costs or abandoned development expenses.

Using the definition of Same Store and New Store described above, the portfolio of assets reported in these segments changes from year to year. Assets transition from New Store to Same Store over time. As of December 31, 2005, the goodwill balance was \$27.4 million of which we allocated \$24.2 million to our domestic

Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reporting units and \$3.2 million to our European reporting units. The following table illustrates the results using the 2005 Same Store and New Store bases for reportable segments as of and for the years ended December 31, 2005 and 2004. Same Store includes all storage centers acquired prior to January 1, 2004, and developments opened prior to January 1, 2003. New Store represents all storage centers acquired after January 1, 2004, and developments opened after January 1, 2003. Other Stores include properties no longer in service, properties closed in the process of being redeveloped, or disposed properties in which we have no remaining ownership interest as of December 31, 2005.

| | Domestic Same Store | Domestic New Store | Europe Same Store | 2005 Europe New Store (in thousands) | Other Stores | Discontinued Stores | Total |
|--|------------------------|-----------------------|----------------------|---|-----------------|------------------------|--------------|
| Storage center operations revenue | \$ 329,002 | \$ 23,432 | \$ 101,819 | \$ 24,698 | \$ 922 | \$ (903) | \$ 478,970 |
| Direct operating expense | 112,002 | 11,545 | 42,592 | 20,714 | 349 | (322) | 186,880 |
| Net operating income | 217,000 | 11,887 | 59,227 | 3,984 | 573 | (581) | 292,090 |
| Indirect expense | 16,989 | 1,453 | 11,907 | 6,512 | 69 | (64) | 36,866 |
| Leasehold expense | 4,157 | 379 | 2,299 | 325 | | | 7,160 |
| Indirect and leasehold expense | 21,146 | 1,832 | 14,206 | 6,837 | 69 | (64) | 44,026 |
| Net operating income (loss) after indirect and leasehold expense | \$ 195,854 | \$ 10,055 | \$ 45,021 | \$ (2,853) | \$ 504 | \$ (517) | \$ 248,064 |
| Segment operating storage center assets, net | \$ 1,395,141 | \$ 211,201 | \$ 710,284 | \$ 359,527 | \$ 3,112 | \$ (2,175) | \$ 2,677,090 |
| Total Storage center additions | \$ 221,534 | \$ 68,383 | \$ 58,318 | \$ 103,855 | \$ | \$ | \$ 452,090 |

| | Domestic Same Store | Domestic New Store | Europe Same Store | 2004 Europe New Store (in thousands) | Other Stores | Discontinued Stores | Total |
|--|------------------------|-----------------------|----------------------|---|-----------------|------------------------|--------------|
| Storage center operations revenue | \$ 309,228 | \$ 7,010 | \$ 90,948 | \$ 11,161 | \$ 5,195 | \$ (4,355) | \$ 419,187 |
| Direct operating expense | 103,583 | 5,759 | 41,141 | 13,973 | 2,026 | (1,520) | 164,962 |
| Net operating income | 205,645 | 1,251 | 49,807 | (2,812) | 3,169 | (2,835) | 254,225 |
| Indirect expense | 14,975 | 664 | 12,025 | 5,291 | 276 | (268) | 32,963 |
| Leasehold expense | 4,114 | 53 | 1,892 | 215 | | | 6,274 |
| Indirect and leasehold expense | 19,089 | 717 | 13,917 | 5,506 | 276 | (268) | 39,237 |
| Net operating income (loss) after indirect and leasehold expense | \$ 186,556 | \$ 534 | \$ 35,890 | \$ (8,318) | \$ 2,893 | \$ (2,567) | \$ 214,988 |
| Segment operating storage center assets, net | \$ 1,414,307 | \$ 164,591 | \$ 759,374 | \$ 299,657 | \$ 9,230 | \$ | \$ 2,647,159 |

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| | | | | | | | | | | | | | | |
|--------------------------------|----|---------|----|--------|----|--------|----|---------|----|--|----|--|----|---------|
| Total Storage center additions | \$ | 205,900 | \$ | 99,248 | \$ | 16,375 | \$ | 100,392 | \$ | | \$ | | \$ | 421,915 |
|--------------------------------|----|---------|----|--------|----|--------|----|---------|----|--|----|--|----|---------|

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Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table illustrates the results using the 2004 Same Store and New Store base for reportable segments as of and for the years ended December 31, 2004 and 2003. Same Store includes all storage centers acquired prior to January 1, 2003, and all developments opened prior to January 1, 2002. New Store represent all storage centers acquired after January 1, 2003, and developments opened after January 1, 2002:

| | Domestic Same Store | Domestic New Store | Europe Same Store | 2004 Europe New Store (in thousands) | Other Store | Discontinued Stores | Total |
|--|------------------------|-----------------------|----------------------|---|----------------|------------------------|--------------|
| Storage center operations revenue | \$ 288,167 | \$ 30,591 | \$ 73,241 | \$ 28,868 | \$ 2,675 | \$ (4,355) | \$ 419,187 |
| Direct operating expense | 93,918 | 16,283 | 30,539 | 24,575 | 1,167 | (1,520) | 164,962 |
| Net operating income | 194,249 | 14,308 | 42,702 | 4,293 | 1,508 | (2,835) | 254,225 |
| Indirect expense | 14,103 | 1,684 | 8,781 | 8,535 | 128 | (268) | 32,963 |
| Leasehold expense | 3,736 | 431 | 1,620 | 487 | | | 6,274 |
| Indirect and leasehold expense | 17,839 | 2,115 | 10,401 | 9,022 | 128 | (268) | 39,237 |
| Net operating income (loss) after indirect and leasehold expense | \$ 176,410 | \$ 12,193 | \$ 32,301 | \$ (4,729) | \$ 1,380 | \$ (2,567) | \$ 214,988 |
| Segment operating storage center assets, net | \$ 1,249,893 | \$ 334,181 | \$ 541,367 | \$ 517,664 | \$ 4,054 | \$ | \$ 2,647,159 |
| Total Storage center additions | \$ 195,701 | \$ 102,434 | \$ 10,127 | \$ 106,640 | \$ | \$ | \$ 414,902 |

| | Domestic Same Store | Domestic New Store | Europe Same Store | 2003 Europe New Store (in thousands) | Other Store | Discontinued Stores | Total |
|---|------------------------|-----------------------|-------------------------|---|----------------|------------------------|------------|
| Segment revenue | \$ 275,397 | \$ 13,437 | \$ 60,707 | \$ 10,065 | \$ 7,841 | \$ (5,360) | \$ 362,087 |
| Less unconsolidated joint ventures | | | (60,707) | (10,065) | (230) | | (71,002) |
| Consolidated revenue | 275,397 | 13,437 | | | 7,611 | (5,360) | 291,085 |
| Direct operating expense | 91,401 | 8,956 | 25,136 | 12,661 | 3,619 | (1,874) | 139,899 |
| Less unconsolidated joint ventures | | | (25,136) | (12,661) | (131) | | (37,928) |
| Consolidated direct operating expense | 91,401 | 8,956 | | | 3,488 | (1,874) | 101,971 |
| Consolidated NOI | 183,996 | 4,481 | | | 4,123 | (3,486) | 189,114 |
| Indirect expense | 12,767 | 865 | 8,734 | 5,529 | 369 | (320) | 27,944 |
| Leasehold expense | 3,241 | 445 | 1,433 | 247 | | | 5,366 |
| Less unconsolidated joint ventures | | | (10,167) | (5,776) | (11) | | (15,954) |
| Consolidated indirect and leasehold expense | 16,008 | 1,310 | | | 358 | (320) | 17,356 |

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| | | | | | | | |
|---|--------------|------------|----|----|-----------|------------|--------------|
| Consolidated NOI after indirect and leasehold expense | \$ 167,988 | \$ 3,171 | \$ | \$ | \$ 3,765 | \$ (3,166) | \$ 171,758 |
| Segment operating storage center assets, net | \$ 1,294,584 | \$ 245,193 | \$ | \$ | \$ 32,107 | \$ | \$ 1,571,884 |
| Total Storage center additions | \$ 168,247 | \$ 182,046 | \$ | \$ | \$ | \$ | \$ 350,293 |

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Table of Contents**SHURGARD STORAGE CENTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table reconciles the reportable segments' direct and indirect operating expense to consolidated operating expense, for the years ended December 31, 2005, 2004 and 2003:

| | 2005 | 2004 | 2003 |
|---|----------------|------------|------------|
| | (in thousands) | | |
| Consolidated direct operating expense | \$ 186,880 | \$ 164,962 | \$ 101,971 |
| Consolidated indirect operating and leasehold expense | 44,026 | 39,237 | 17,356 |
| Other operating expense, net | 2,100 | 7,181 | 6,553 |
| Consolidated operating expense | \$ 233,006 | \$ 211,380 | \$ 125,880 |

The following table reconciles the reportable segments' NOI per the table above to consolidated net income for the years ended December 31, 2005, 2004 and 2003:

| | 2005 | 2004 | 2003 |
|--|----------------|------------|------------|
| | (in thousands) | | |
| Consolidated NOI after indirect and leasehold expense | \$ 248,064 | \$ 214,988 | \$ 171,758 |
| Other revenue | 4,922 | 5,101 | 6,877 |
| Other operating expense, net | (2,100) | (7,181) | (6,553) |
| Real estate development expense | (10,042) | (4,991) | (23) |
| Depreciation and amortization | (95,722) | (87,503) | (55,537) |
| Impairment and abandoned project expense | (3,354) | (2,856) | (13,889) |
| General, administrative and other | (35,318) | (32,961) | (18,012) |
| Costs related to takeover proposal and exploration of strategic alternatives | (13,775) | | |
| Interest expense | (105,584) | (82,876) | (51,182) |
| Amortization of participation rights discount | | 1,123 | 5,529 |
| Loss on derivatives, net | (2,122) | (615) | (2,194) |
| Foreign exchange (loss) gain | (9,665) | 6,247 | (431) |
| Interest income and other, net | 3,746 | 4,361 | 4,887 |
| Minority interest | 20,936 | 16,608 | (1,206) |
| Equity in earnings (losses) of other real estate investments, net | 60 | 93 | (3,099) |
| Income tax expense | (636) | (72) | (1,611) |
| (Loss) income from continuing operations | \$ (590) | \$ 29,466 | \$ 35,314 |

The following table reconciles the reportable segments' assets to consolidated assets as of December 31, 2005 and 2004:

| | As of December 31, | |
|--|--------------------|--------------|
| | 2005 | 2004 |
| | (in thousands) | |
| Segment operating storage centers assets, net | \$ 2,677,090 | \$ 2,647,159 |
| Non storage centers and properties held for sale | 9,093 | 10,628 |
| Corporate assets, net | 12,678 | 14,498 |

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| | | |
|---------------------------|--------------|--------------|
| Storage centers, net | 2,698,861 | 2,672,285 |
| Construction in progress | 67,073 | 58,431 |
| Total storage centers | 2,765,934 | 2,730,716 |
| Cash and cash equivalents | 39,778 | 50,277 |
| Restricted cash | 4,972 | 7,181 |
| Goodwill | 27,440 | 24,206 |
| Other assets | 119,248 | 128,204 |
| Total assets | \$ 2,957,372 | \$ 2,940,584 |

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We separately report as discontinued operations the historical operating results attributable to operating properties sold and held for sale and the applicable gain or loss on the disposition of the properties. As a result, we have made the appropriate reclassification adjustments to our previously issued financial statements for the quarters ended March 31, June 30, and September 30, and December 31, 2005 and 2004.

| | March 31, 2005 | June 30, 2005 | September 30, 2005 (1) | December 31, 2005 |
|---|--|------------------|---------------------------|----------------------|
| | Three months ended | | | |
| | (in thousands, except share data) | | | |
| Revenue | \$ 113,625 | \$ 119,467 | \$ 125,484 | \$ 125,316 |
| Income from operations | 19,921 | 23,909 | 31,728 | 30,892 |
| Income (loss) from continuing operations | (1,332) | (865) | (3,903) | 5,510 |
| Net income (loss) | 5,256 | (693) | 1,590 | 5,506 |
| Basic per share amounts | | | | |
| (Loss) income from continuing operations available to common shareholders | \$ (0.09) | \$ (0.08) | \$ (0.15) | \$ 0.05 |
| Discontinued operations | 0.14 | | 0.12 | |
| Net income (loss) available to common shareholders per share | \$ 0.05 | \$ (0.08) | \$ (0.03) | \$ 0.05 |
| Diluted per share amounts | | | | |
| (Loss) income from continuing operations available to common shareholders | \$ (0.09) | \$ (0.08) | \$ (0.15) | \$ 0.05 |
| Discontinued operations | 0.14 | | 0.12 | |
| Net income (loss) available to common shareholders per share | \$ 0.05 | \$ (0.08) | \$ (0.03) | \$ 0.05 |

- (1) In the third quarter of 2005, we recognized a \$12.7 million expense associated with the merger proposal and exploration of strategic alternatives. See Note 22.

| | March 31, 2004 | June 30, 2004 | September 30, 2004 | December 31, 2004 |
|---|--|------------------|-----------------------|----------------------|
| | Three months ended | | | |
| | (in thousands, except share data) | | | |
| Revenue | \$ 99,075 | \$ 104,153 | \$ 109,701 | \$ 111,359 |
| Income from operations | 18,939 | 24,008 | 26,967 | 14,683 |
| Income from continuing operations | 1,429 | 8,095 | 13,574 | 6,368 |
| Income before cumulative effect of change | 2,034 | 20,807 | 18,153 | 6,640 |
| Net (loss) income | (305) | 20,807 | 18,153 | 6,640 |
| Basic per share amounts | | | | |
| (Loss) income from continuing operations available to common shareholders | \$ (0.03) | \$ 0.11 | \$ 0.23 | \$ 0.07 |
| Discontinued operations | 0.01 | 0.28 | 0.10 | 0.01 |
| Cumulative effect of change in accounting principle | (0.05) | | | |
| Net income (loss) available to common shareholders per share | \$ (0.07) | \$ 0.39 | \$ 0.33 | \$ 0.08 |

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Diluted per share amounts

| | | | | |
|---|-----------|---------|---------|---------|
| (Loss) income from continuing operations available to common shareholders | \$ (0.03) | \$ 0.11 | \$ 0.23 | \$ 0.07 |
| Discontinued operations | 0.01 | 0.27 | 0.10 | 0.01 |
| Cumulative effect of change in accounting principle | (0.05) | | | |
| Net income (loss) available to common shareholders per share | \$ (0.07) | \$ 0.38 | \$ 0.33 | \$ 0.08 |

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The following tables summarize our contractual obligations and our off-balance sheet commitments as of December 31, 2005.

| | | Payments due by period | | | 2011 and beyond |
|---|--------------|------------------------|-----------------------------|-----------|-----------------|
| | Total | 2006 | 2007-2008 (in thousands) | 2009-2010 | |
| Contractual Obligations | | | | | |
| Long-term debt | \$ 1,853,061 | \$ 9,226 | \$ 878,352 | \$ 48,607 | \$ 916,876 |
| Capital and operating lease obligations | 217,854 | 10,127 | 17,049 | 13,042 | 177,636 |
| Totals | \$ 2,070,915 | \$ 19,353 | \$ 895,401 | \$ 61,649 | \$ 1,094,512 |

| | Total amounts committed | Amount of commitment expiration per period | | | | 2011 and beyond |
|--|-------------------------------|--|-----------------------------|-----------|----|--------------------|
| | | 2006 | 2007-2008 (in thousands) | 2009-2010 | | |
| Other Commercial Commitments & Contingent Liabilities | | | | | | |
| Development contract commitments (1) | \$ 51,697 | \$ 50,775 | \$ 347 | \$ 575 | \$ | |
| Commitment to purchase interests (2) | 2,000 | 2,000 | | | | |
| Loan commitments (3) | 4,187 | 4,129 | 58 | | | |
| Outstanding letters of credit and other (4) | 3,718 | 3,718 | | | | |
| Totals | \$ 61,602 | \$ 60,622 | \$ 405 | \$ 575 | \$ | |

- (1) Includes costs to complete property development and redevelopment projects conducted with contractors. We computed the outstanding commitment based on total estimated project costs less costs incurred to date. This includes \$21.1 million of development commitments on our European joint ventures in which we have a 20% ownership interest.
- (2) Includes a commitment to purchase the ownership interest of a minority interest.
- (3) Includes loan commitments to a California developer to finance the construction of certain storage centers according to our specifications.
- (4) Includes primarily an outstanding letter of credit related to our insurance trust for workmen's compensation and of letters of credit related to properties under construction.

Legal Proceedings

On March 7, 2006, Doris Staer filed a purported class action suit in the Superior Court of Washington for King County styled as Doris Staer v. Shurgard Storage Centers, Inc., Charles K. Barbo, Anna Karin Andrews, Raymond A. Johnson, W. Thomas Porter, Gary E. Pruitt, David K. Grant, Howard P. Behar and Richard P. Fox (Case No. 06-2-08148-0 SEA) alleging self-dealing and breaches of fiduciary duties. Ms. Staer claims that Shurgard and the named directors breached their fiduciary duties in connection with the approval of our Merger Agreement with Public Storage, Inc. and seeks among other things to enjoin the transaction. We believe that our actions and the actions of our board of directors were appropriate.

We are a defendant in litigation filed on September 17, 2002, in the Superior Court of California for Orange County styled as Gary Drake v. Shurgard Storage Centers, Inc. et al (Case No. 02CC00152). The complaint

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

alleges that we misrepresented the size of our storage units, seeks class action status and seeks damages, injunctive relief and declaratory relief against us under California statutory and common law relating to consumer protection, unfair competition, fraud and deceit and negligent misrepresentation. The Court recently ruled that the class of potential members in this lawsuit is limited to our California customers. No class has yet been certified. It is possible that we may incur losses as a result of this litigation, but we currently do not believe that the range of such losses would be material to our financial position, operating results or cash flows. However, we cannot presently determine the potential total damages, if any, or the ultimate outcome of the litigation. We are vigorously defending this action.

In addition, from time to time we are subject to various legal proceedings that arise in the ordinary course of business. Although we cannot predict the outcomes of these proceedings with certainty, we do not believe that the disposition of these matters and the matters discussed above will have a material adverse effect on our financial position, operating results or cash flows. We expense legal costs on legal proceedings as incurred.

Takeover Proposal and Exploration of Strategic Alternatives

By letter dated July 8, 2005, Public Storage, Inc. made an unsolicited takeover proposal to acquire us through a fully taxable all stock transaction pursuant to which 0.8 shares of Public Storage common stock would be exchanged for each outstanding share of Shurgard common stock. The board of directors met on July 22, 2005 and, with the assistance of financial and legal advisors, conducted a thorough review of the proposal and unanimously decided to reject the proposal. The board of directors determined that a combination of the companies on the terms proposed would not be in the best interests of our shareholders and communicated our rejection of the proposal by letter to Public Storage dated July 26, 2005. On August 1, 2005, Public Storage publicly disclosed its interest in combining the two companies on the same terms previously presented, and Shurgard publicly reiterated its rejection of that proposal.

On October 27, 2005, we announced that our board of directors has authorized management and our financial advisors to explore reasonably available strategic alternatives to maximize shareholder value. These alternatives include, but are not limited to, a sale of the Company, the formation of asset joint ventures with strategic partners, a sale of certain of our assets or operations, and continued implementation of our strategic business plan.

On March 6, 2006, we entered into a Merger Agreement, dated as of March 6, 2006, with Public Storage, that contemplates a merger whereby we will be merged with and into a subsidiary of Public Storage. Each outstanding share of our common stock will be converted into the right to receive 0.82 of a fully paid and non-assessable share of Public Storage common stock, and we expect to redeem each series of our outstanding preferred stock in accordance with its terms. Public Storage will assume approximately \$1.8 billion of our debt. Holders of Shurgard's stock options, restricted stock units and shares of restricted stock will receive, subject to adjustments, options exercisable for shares of Public Storage common stock, restricted stock units and restricted shares of Public Storage common stock, respectively.

Our board of directors and the board of directors of Public Storage have approved the Merger Agreement. The proposed merger is subject to our shareholders' approval, Public Storage's shareholders' approval of the issuance of shares of Public Storage stock to be used as merger consideration and other customary closing conditions.

We have made certain representations and warranties in the Merger Agreement and have agreed to certain covenants, including, among others, subject to certain exceptions, to permit our board of directors to comply with its fiduciary duties, and not to solicit, negotiate, provide information in furtherance of, approve, recommend or enter into any other acquisition proposal (as defined in the Merger Agreement).

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Merger Agreement contains representations and warranties that the parties have made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between the parties, and may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating its terms. Moreover, the representations and warranties are subject to a contractual standard of materiality that may be different from what may be viewed as material to shareholders, and the representations and warranties may have been intended not as statements of fact, but rather as a way of allocating risk between the parties. This description of certain terms of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement, a copy of which is filed with our current report on Form 8-K dated March 7, 2006.

We have entered into engagement letters with our financial advisors for services to be rendered in connection with the takeover proposal and an exploration of strategic alternatives. Combined minimum fee obligations under these agreements total \$12 million for services to be rendered to us over a period of up to 18 months, which commenced in July 2005. We expensed the entire \$12 million combined minimum fee obligation in 2005. As of December 31, 2005, \$11.4 million of accrued minimum fee obligations were included in other liabilities. We expensed an additional \$1.8 million in legal fees and reimbursements of expenses as incurred in 2005. As a result of entering into the Merger Agreement with Public Storage in March 2006, we will incur \$12 million of additional financial advisory fees plus out of pocket expenses in 2006. Of the total \$23.4 million financial advisory fees payable in 2006, approximately \$10.5 million are due during the first quarter of 2006; the balance of \$12.9 million will become payable upon consummation of the proposed merger.

Note 23 Related Party Transactions

Charles K. Barbo, our chief executive officer through January 1, 2006, and chairman of our board of directors, indirectly owns a 0.5% ownership interest in a limited partnership known as Shurgard Institutional Fund L.P. I, a consolidated subsidiary of Shurgard. Shurgard owns a 99% interest in this entity.

Recom, a consolidated Belgian subsidiary as of June 28, 2003, made a subordinated loan to Shurgard Europe in 1999. In September 2003, Recom and other Shurgard Europe warrant holders exercised their warrants to purchase additional equity interests in Shurgard Europe. The majority of the warrants were held by Recom which upon exercise, exchanged \$139.6 million of the subordinated loan payable, an amount equal to the exercise price of the warrants. Cash proceeds from the exercise of the remaining warrants and other borrowings by Shurgard Europe were used to repay the remaining \$7.5 million balance of the subordinated loan payable.

On July 8, 2003, we loaned 1.9 million (\$2.2 million based on exchange rates as of July 8, 2003, which rates were applied in all the amounts listed below) to E-Parco, a Belgian company owned by certain employees of Shurgard Europe. E-Parco had an indirect ownership interest in Shurgard Europe through Recom. The proceeds of this loan were used by E-Parco to repurchase its shares from Mr. Grant, an officer of the Company, and certain other employees of Shurgard Europe. We paid 1.2 million (\$1.4 million as of July 2, 2003) to Mr. Grant for his shares and 0.7 million (\$0.8 million as of July 2, 2003) was paid to the other former employees for their shares. The purchase price for the E-Parco shares was based on recent third party sales transactions for interests in Shurgard Europe. As partial consideration for the loan, E-Parco granted Shurgard an option to purchase its 377 Recom shares for 4.3 million (\$5.3 million on July 2, 2004) plus forgiveness of the loan including accrued interest. We exercised the option on June 1, 2004 and closed the purchase of E-Parco shares on July 2, 2004. Since July 2, 2004, we have been the sole shareholder of Recom.

On June 30, 2003, we issued \$20 million of our Class A common stock in exchange for notes receivable from shareholders. The shares were initially recorded as a reduction of shareholders' equity that secured

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$20 million in mortgage debt assumed in the purchase of Minnesota Mini-Storage (see Note 4). The notes from shareholders were collateralized by a pledge of the shareholders' Shurgard common stock and were paid in full in October 2003, and we reclassified the \$20 million to shareholders' equity.

In April 2003, we acquired the general partner interests in Shurgard Partners LP II (Shurgard Partners II), the general partner of Shurgard Institutional Fund LP II (Institutional II), a consolidated entity, for \$0.2 million. The acquired Shurgard Partners II general partner interests were owned by an unaffiliated third party and an officer of the Company. The acquisition was, in part, in response to the board of directors' stated objective of eliminating existing historical arrangements involving related parties. The purchase price payable for the acquired Shurgard Partners II general partner interests was governed by the terms of the partnership agreements for Shurgard Partners II and Institutional II and was based on the fair market value of the property owned by Institutional II as determined by a third party appraisal. This transaction increased our ownership of Institutional II from 99% to 100%. Of the \$0.2 million total purchase price, we paid \$84,000 to Mr. Barbo, our Chief Executive Officer at the time, to acquire his partnership interest in Shurgard Partners II.

On May 27, 2002, we entered into a subscription agreement to purchase up to \$50 million of three year 9.75% payment-in-kind cumulative preferred bonds to be issued at the option of Shurgard Europe. Pursuant to the subscription agreement, Shurgard Europe had the ability to issue up to \$50 million of these preferred bonds to us during the first two years of the three-year commitment term. Shurgard Europe has the option of increasing our total notional subscription to \$55 million with an additional \$20 million that can be drawn by First Shurgard only in a potential event of a default on the five year debt facility between First Shurgard and a group of commercial banks. In February 2005, as part of a renegotiation of the covenants on the First Shurgard credit facility, an additional \$5 million of subordinated bonds and a \$2.5 million subordinated working capital facility was made available to First Shurgard. Interest is payable on the bonds at the end of each quarter in cash or through an issuance of additional bonds. Any bonds issued to pay interest can be issued above the commitment amount. Shurgard Europe must redeem the bonds on the redemption date, or may redeem at any time prior to the redemption date, by paying us 115% of the face value of the outstanding bonds plus accrued and unpaid interest. The subscription agreement with Shurgard Europe entitles us to a commitment fee of 0.5% and a structuring fee of 1.5% of the initial commitment of \$50 million, as well as an unused fee equal to 1% of the undrawn amount payable in arrears on an annual basis. The subscription agreement with First Shurgard for the additional \$20 million entitles us to a commitment fee of 2% of the \$20 million. Prior to the consolidation of Shurgard Europe, these fees were recognized in income using the effective interest method over the extended term of the bonds. As of December 31, 2003, \$55.3 million of U.S. dollar denominated bonds had been issued to us under this commitment including \$6.0 million in additional bonds issued for accrued interest. The terms of the bonds provide that the parties will treat the bonds as an equity investment in Shurgard Europe for federal income tax purposes. The bonds' income and fees related to the bonds are included in our consolidated statements of operations in interest income other, net for the period ended December 31, 2003. Shurgard Europe's interest expense and fees related to this subscription agreement are also included in interest income and other and therefore the impact of interest is eliminated in the consolidated statements of operations as of December 31, 2003.

Note 24 Subsequent Events

On January 23, 2006, we completed the acquisition of 3S-Self-Storage Systems SAS in France, a company that operates nine self-storage facilities in various metropolitan areas where we already have operating properties. We will incorporate the management of these properties with our existing portfolio of 39 self-storage centers in France. We completed the acquisition through our 20% owned Second Shurgard subsidiary for total consideration and acquisition costs of approximately \$46 million. We financed the acquisition with \$20.0 million from draws on Second Shurgard's credit facility and the remainder with Second Shurgard's cash from equity contributions.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On February 16, 2006, our board of directors declared a fourth quarter dividend of \$0.56 per common share. The dividend totals \$26.4 million and was paid on March 13, 2006, to shareholders of record as of March 3, 2006.

Note 25 Reclassifications (Subsequent Event)

Subsequent to the filing of our annual report on Form 10-K on March 20, 2006, in conjunction with the planned merger with Public Storage, Shurgard terminated its plans to sell two domestic storage centers, which were classified as held for sale and reported as discontinued operations at December 31, 2005. Instead, management has determined it will hold such properties for the foreseeable future. Therefore, in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the accompanying consolidated statements of operations have been restated and the net results of operations from these properties have been reclassified to continuing operations from discontinued operations for the years ended December 31, 2005, 2004 and 2003. The effect of the reclassification represents a \$277,000, or 32%, decrease in our previously reported net loss from continuing operations for the year ended December 31, 2005, and an increase in our previously reported net income from continuing operations of \$235,000, or 0.8%, and \$166,000, or 0.5%, for the years ended December 31, 2004 and 2003, respectively. As a result of the foregoing, Notes 4, 18, 19, 20 and 21 to the consolidated financial statements for the three years ended December 31, 2005, have been updated. There is no effect on Shurgard's previously reported net income, financial condition or cash flows.

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION**

| | | INITIAL COST | | | | | | | | | | Gross Amount as of December 31, 2005 | | | | Depr. Life in mos. |
|------------------------|---------------|----------------------------|--------------------------|-----------------------------------|----------|--|-------------|-------------------------------------|-------------------|------------------|-----------------|---|---------------|-----|--|-----------------------------|
| | | State or Country (3) | Encum- brances (2) | Building, Equip. & Other | | Costs GrossSubsequentLand andBuilding | | Land Held for Sale & Other | Equip. Storage | Gross Storage | Accum. Depr. | Owned Since | Year Built | | | |
| Property Name | Location | | | Land | Other | Centers | Acquisition | | | | | | | | | |
| Ahwatukee | Phoenix | AZ | \$ | \$ 721 | \$ 2,469 | \$ 3,190 | \$ 40 | \$ 721 | \$ 2,509 | \$ 3,230 | \$ (677) | 1998 | 1998 | 360 | | |
| Arrowhead | Glendale | AZ | | 569 | 2,600 | 3,169 | 58 | 569 | 2,658 | 3,227 | (735) | 1997 | 1997 | 360 | | |
| Chandler | Chandler | AZ | | 652 | 2,608 | 3,260 | 600 | 652 | 3,208 | 3,860 | (1,282) | 1986 | 1986 | 360 | | |
| Collonade Mall | Phoenix | AZ | | | 1,146 | 1,146 | 60 | | 1,206 | 1,206 | (407) | 1998 | 1997 | 275 | | |
| Cooper Road | Gilbert | AZ | | 376 | 2,398 | 2,774 | 59 | 376 | 2,457 | 2,833 | (424) | 2001 | 2001 | 360 | | |
| Desert Sky | Phoenix | AZ | | 536 | 2,891 | 3,427 | 5 | 536 | 2,896 | 3,432 | (452) | 2001 | 2001 | 360 | | |
| Dobson Ranch | Mesa | AZ | | 499 | 1,996 | 2,495 | 229 | 499 | 2,225 | 2,724 | (767) | 1996 | 1978 | 360 | | |
| Houghton | Tucson | AZ | 2,289 | 607 | 2,536 | 3,143 | 349 | 607 | 2,885 | 3,492 | (579) | 2000 | 2000 | 360 | | |
| Mesa | Mesa | AZ | | 352 | 1,829 | 2,181 | 587 | 355 | 2,413 | 2,768 | (1,045) | 1987 | 1985 | 360 | | |
| Mill Avenue | Tempe | AZ | | 147 | 1,799 | 1,946 | 105 | 431 | 1,620 | 2,051 | (387) | 1999 | 1998 | 360 | | |
| Oro Valley | Tucson | AZ | | 561 | 2,930 | 3,491 | 5 | 561 | 2,935 | 3,496 | (319) | 2003 | 2003 | 360 | | |
| Phoenix | Phoenix | AZ | | 670 | 2,697 | 3,367 | 209 | 656 | 2,920 | 3,576 | (1,237) | 1985 | 1984 | 360 | | |
| Phoenix East | Phoenix | AZ | | 543 | 2,189 | 2,732 | 429 | 543 | 2,618 | 3,161 | (1,097) | 1987 | 1984 | 360 | | |
| Scottsdale Air Park | Scottsdale | AZ | | 880 | 3,694 | 4,574 | 97 | 880 | 3,791 | 4,671 | (1,129) | 1997 | 1997 | 360 | | |
| Scottsdale North | Scottsdale | AZ | | 1,093 | 4,811 | 5,904 | 449 | 1,093 | 5,260 | 6,353 | (1,810) | 1985 | 1985 | 360 | | |
| Scottsdale South | Scottsdale | AZ | | 410 | 1,743 | 2,153 | 217 | 410 | 1,960 | 2,370 | (878) | 1985 | 1976/85 | 360 | | |
| Shea | Scottsdale | AZ | | 786 | 3,165 | 3,951 | 283 | 807 | 3,427 | 4,234 | (977) | 1997 | 1996 | 360 | | |
| Speedway | Tucson | AZ | | 744 | 2,304 | 3,048 | 799 | 773 | 3,074 | 3,847 | (763) | 1998 | 1998 | 360 | | |
| Tanque Verde | Tucson | AZ | | 578 | 2,620 | 3,198 | 8 | 578 | 2,628 | 3,206 | (387) | 2002 | 2002 | 360 | | |
| Union Hills | Phoenix | AZ | | 615 | 2,475 | 3,090 | 175 | 617 | 2,648 | 3,265 | (691) | 1998 | 1998 | 360 | | |
| Val Vista | Gilbert | AZ | | 682 | 2,805 | 3,487 | 1,114 | 778 | 3,823 | 4,601 | (766) | 1999 | 1999 | 360 | | |
| Warner | Tempe | AZ | | 313 | 1,352 | 1,665 | 280 | 313 | 1,632 | 1,945 | (783) | 1995 | 1985 | 360 | | |
| Alicia Parkway | Laguna Hills | CA | | 1,729 | 7,027 | 8,756 | 434 | 1,729 | 7,461 | 9,190 | (1,834) | 1998 | 1991 | 360 | | |
| Aliso Viejo | Aliso Viejo | CA | | 2,218 | 3,628 | 5,846 | 845 | 2,218 | 4,473 | 6,691 | (1,455) | 1996 | 1996 | 360 | | |
| Antioch | Antioch | CA | 3,281 | 638 | 4,366 | 5,004 | 513 | 678 | 4,839 | 5,517 | (834) | 2000 | 2000 | 360 | | |
| Blossom Valley | San Jose | CA | | 1,204 | 4,128 | 5,332 | 628 | 1,212 | 4,748 | 5,960 | (1,163) | 1998 | 1998 | 360 | | |
| Cabot Road | Laguna Niguel | CA | 4,180 | 1,300 | 6,129 | 7,429 | 39 | 1,300 | 6,168 | 7,468 | (922) | 2001 | 2000 | 360 | | |
| Capitol | | | | | | | | | | | | | | | | |
| Expressway | San Jose | CA | | 973 | 6,181 | 7,154 | (658) | | 6,496 | 6,496 | (1,157) | 2000 | 2000 | 360 | | |
| Castro Valley | Castro Valley | CA | | 810 | 4,010 | 4,820 | 318 | 907 | 4,231 | 5,138 | (1,422) | 1996 | 1975 | 360 | | |
| Castro Valley | | | | | | | | | | | | | | | | |
| Business Park | Castro Valley | CA | | 97 | 390 | 487 | 26 | 97 | 416 | 513 | (144) | 1996 | 1975 | 360 | | |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | Accum. Depr. | Owned Since | Year Built | Depr. Life in mos. |
|------------------|--------------------|-------------------------|---------------------|--------------|-------------------|-----------------------|---------------------------------|--------------------------------------|-------------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building & Equip. | Gross Storage Centers | | Land and Land Held for Sale | Building & Other Equip. | Gross Storage centers | | | | |
| Costa Mesa | Costa Mesa | CA | 2,407 | 1,057 | 2,956 | 4,013 | 287 | 882 | 3,418 | 4,300 | (725) | 1999 | 1998 | 360 |
| Culver City | Culver City | CA | | 1,039 | 4,146 | 5,185 | 328 | 1,039 | 4,474 | 5,513 | (1,831) | 1988 | 1989 | 360 |
| Daly City | Daly City | CA | | 1,846 | 5,438 | 7,284 | 901 | 1,846 | 6,339 | 8,185 | (2,606) | 1995 | 1989 | 360 |
| El Cajon | El Cajon | CA | | 1,013 | 4,113 | 5,126 | 737 | 1,013 | 4,850 | 5,863 | (2,066) | 1986 | 1977 | 360 |
| El Cerito | Richmond | CA | | 765 | 3,055 | 3,820 | 316 | 765 | 3,371 | 4,136 | (1,348) | 1986 | 1987 | 360 |
| Huntington Beach | Huntington Beach | CA | | 949 | 3,794 | 4,743 | 522 | 949 | 4,316 | 5,265 | (1,715) | 1988 | 1986 | 360 |
| Kearney | BalboaSan Diego | CA | | 830 | 3,333 | 4,163 | 494 | 830 | 3,827 | 4,657 | (1,618) | 1986 | 1984 | 360 |
| La Habra | La Habra | CA | | 715 | 2,886 | 3,601 | 404 | 715 | 3,290 | 4,005 | (1,397) | 1986 | 1979/91 | 360 |
| Livermore | Livermore | CA | | 1,185 | 4,622 | 5,807 | (6) | 1,185 | 4,616 | 5,801 | (663) | 2002 | 2002 | 360 |
| Long Beach | Long Beach | CA | | 1,190 | 6,601 | 7,791 | 760 | 1,190 | 7,361 | 8,551 | (578) | 2003 | 2003 | 360 |
| Martinez | Martinez | CA | | 1,012 | 2,215 | 3,227 | 8,334 | 2,830 | 8,731 | 11,561 | (1,700) | 1995 | 1987/2004 | 360 |
| Monterey | Sand City | CA | | 1,274 | 6,107 | 7,381 | (4) | 1,274 | 6,103 | 7,377 | (736) | 2002 | 2002 | 360 |
| Mountain View | Mountain View | CA | | 439 | 1,757 | 2,196 | 312 | 439 | 2,069 | 2,508 | (864) | 1987 | 1986 | 360 |
| Natomas | Sacramento | CA | | 1,307 | 4,604 | 5,911 | 22 | 1,307 | 4,626 | 5,933 | (349) | 2003 | 2003 | 360 |
| Newark | Newark | CA | | 855 | 3,421 | 4,276 | 499 | 855 | 3,920 | 4,775 | (1,167) | 1996 | 1991 | 360 |
| Northridge | Northridge | CA | | 2,215 | 6,250 | 8,465 | 1,701 | 2,215 | 7,951 | 10,166 | (454) | 2004 | 2004 | 360 |
| Oakley | Oakley | CA | | 1,570 | 4,655 | 6,225 | 17 | 1,570 | 4,672 | 6,242 | (693) | 2001 | 2001 | 360 |
| Ontario | Ontario | CA | | 512 | 2,058 | 2,570 | 472 | 512 | 2,530 | 3,042 | (696) | 1996 | 1984 | 360 |
| Orange | Orange | CA | | 1,144 | 4,580 | 5,724 | 96 | 1,144 | 4,676 | 5,820 | (1,504) | 1996 | 1985 | 360 |
| Palm Desert | Palm Desert | CA | | 921 | 5,885 | 6,806 | | 921 | 5,885 | 6,806 | (105) | 2005 | 2005 | 360 |
| Palms | Los Angeles | CA | 4,839 | 1,598 | 6,309 | 7,907 | | 1,598 | 6,309 | 7,907 | (409) | 2003 | 2001 | 360 |
| Palo Alto | Palo Alto | CA | | 701 | 2,805 | 3,506 | 596 | 705 | 3,397 | 4,102 | (1,279) | 1986 | 1987 | 360 |
| Pinole | Pinole | CA | | 614 | 1,023 | 1,637 | 1,658 | 1,006 | 2,289 | 3,295 | (672) | 1995 | 1988 | 360 |
| Presidio | San Francisco | CA | | 104 | 1,137 | 1,241 | | 104 | 1,137 | 1,241 | (40) | 2005 | 2005 | 360 |
| Rancho Mirage | Rancho Mirage | CA | | 912 | 5,313 | 6,225 | 1,125 | 957 | 6,393 | 7,350 | (288) | 2004 | 2004 | 360 |
| Rancho San Diego | Rancho San Diego | CA | 3,759 | 1,312 | 4,874 | 6,186 | | 1,312 | 4,874 | 6,186 | (519) | 2003 | 2002 | 360 |
| Sacramento | Sacramento | CA | | 680 | 2,723 | 3,403 | 132 | 680 | 2,855 | 3,535 | (916) | 1996 | 1991 | 360 |
| San Juan Creek | San Juan Capistran | CA | 4,693 | 1,450 | 5,526 | 6,976 | 1,345 | 1,450 | 6,871 | 8,321 | (933) | 2001 | 2001 | 360 |
| San Leandro | San Leandro | CA | | 776 | 3,105 | 3,881 | 156 | 776 | 3,261 | 4,037 | (1,080) | 1996 | 1991 | 360 |
| San Lorenzo | San Lorenzo | CA | | 611 | 2,447 | 3,058 | 212 | 611 | 2,659 | 3,270 | (875) | 1996 | 1990 | 360 |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | | Owned Since | Year Built | Depr. Life in mos. |
|-----------------------|-------------------|----------------------|------------------|--------------|-------------------|-----------------------|---------------------------------|--------------------------------------|-------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building & Equip. | Gross Storage Centers | | Land Held for Sale | Building & Equip. | Gross Storage centers | Accum. Depr. | | | |
| Santa Ana | Santa Ana | CA | | 1,467 | 5,920 | 7,387 | 621 | 1,467 | 6,541 | 8,008 | (2,704) | 1986 | 1975/86 | 360 |
| SF-Evans | San Francisco | CA | | 2,073 | 11,236 | 13,309 | 44 | 2,073 | 11,280 | 13,353 | (1,155) | 2002 | 2002 | 360 |
| Solana Beach | Solana Beach | CA | | | 6,837 | 6,837 | 620 | | 7,457 | 7,457 | (3,035) | 1987 | 1984 | 360 |
| South San Francisco | San Francisco | CA | | 721 | 2,897 | 3,618 | 333 | 721 | 3,230 | 3,951 | (1,322) | 1987 | 1985 | 360 |
| Sunnyvale | Sunnyvale | CA | | 1,697 | 6,541 | 8,238 | 5,827 | 1,697 | 12,368 | 14,065 | (3,750) | 1986 | 1975/98 | 360 |
| Tracy | Tracy | CA | | 732 | 2,928 | 3,660 | 279 | 732 | 3,207 | 3,939 | (1,035) | 1996 | 1986 | 360 |
| Tracy II | Tracy | CA | | 840 | 2,858 | 3,698 | 42 | 826 | 2,914 | 3,740 | (395) | 2002 | 2000 | 360 |
| Union City | Hayward | CA | | 287 | 1,208 | 1,495 | 197 | 287 | 1,405 | 1,692 | (835) | 1985 | 1985 | 360 |
| Van Ness | San Francisco | CA | | 5,289 | 9,001 | 14,290 | 530 | 5,289 | 9,531 | 14,820 | (1,878) | 1999 | 1999/1934 | 360 |
| Vista Park-Land Lease | San Jose | CA | | | 93 | 93 | 4 | | 97 | 97 | (75) | 2001 | 2000 | 360 |
| Walnut Creek | Walnut Creek | CA | 3,181 | 630 | 4,512 | 5,142 | 1,317 | | 6,459 | 6,459 | (1,430) | 1999 | 1987 | 327 |
| West Covina | West Covina | CA | 3,896 | 1,470 | 4,869 | 6,339 | 8 | 1,470 | 4,877 | 6,347 | (205) | 2004 | 2001 | 360 |
| Westpark | Irvine | CA | 7,382 | 690 | 7,478 | 8,168 | 5,021 | 4,190 | 8,999 | 13,189 | (1,841) | 2000 | 1999 | 360 |
| Westwood | Los Angeles | CA | | 951 | 3,797 | 4,748 | 4,318 | 951 | 8,115 | 9,066 | (2,744) | 1986 | 1988/97 | 360 |
| Woodland Hills | Woodland Hills | CA | 4,889 | 1,980 | 8,342 | 10,322 | 3 | 1,980 | 8,345 | 10,325 | (297) | 2004 | 2003 | 360 |
| Denver Tech Center | Greenwood Village | CO | | 863 | 3,296 | 4,159 | 25 | 863 | 3,321 | 4,184 | (265) | 2003 | 2003 | 360 |
| Highlands Ranch | Highlands Ranch | CO | | 594 | 2,822 | 3,416 | 155 | 596 | 2,975 | 3,571 | (121) | 2004 | 2004 | 360 |
| Kipling & Hampden | Lakewood | CO | | 326 | 2,472 | 2,798 | 8 | 327 | 2,479 | 2,806 | (340) | 2002 | 2002 | 360 |
| Lakewood | Golden | CO | | 528 | 2,108 | 2,636 | 238 | 528 | 2,346 | 2,874 | (922) | 1986 | 1985 | 360 |
| Northglenn | Northglenn | CO | | 531 | 2,152 | 2,683 | 729 | 531 | 2,881 | 3,412 | (1,237) | 1987 | 1979 | 360 |
| Tamarac | Denver | CO | | 194 | 776 | 970 | 225 | 194 | 1,001 | 1,195 | (446) | 1984 | 1977 | 360 |
| Thornton | Denver | CO | | 237 | 956 | 1,193 | 204 | 235 | 1,162 | 1,397 | (506) | 1984 | 1984 | 360 |
| Windermere | Littleton | CO | | 653 | 2,690 | 3,343 | 481 | 653 | 3,171 | 3,824 | (1,364) | 1984 | 1977/79 | 360 |
| Alafaya JV | Orlando | FL | 2,791 | 1,984 | 3,234 | 5,218 | 105 | 1,984 | 3,339 | 5,323 | (473) | 2002 | 2002 | 360 |
| Blue Heron | West Palm Beach | FL | | 1,327 | 5,490 | 6,817 | 236 | 1,327 | 5,726 | 7,053 | (2,384) | 1987 | 1975 | 360 |
| Brandon | Brandon | FL | 2,999 | 973 | 3,423 | 4,396 | 143 | 989 | 3,550 | 4,539 | (825) | 1999 | 1999 | 360 |
| Carrollwood | Tampa | FL | 1,480 | 884 | 2,705 | 3,589 | 579 | 911 | 3,257 | 4,168 | (666) | 2000 | 1999 | 360 |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | Accum. Depr. | Owned Since | Year Built | Depr. Life in mos. |
|----------------------|-------------------|----------------------|------------------|--------------|--------------------------|-----------------------|---------------------------------|--------------------------------------|-------------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building, Equip. & Other | Gross Storage Centers | | Land and Land Held for Sale | Building Equip. & Other | Gross Storage centers | | | | |
| Central Parkway | Altamonte Springs | FL | | 1,166 | 3,972 | 5,138 | | 1,166 | 3,972 | 5,138 | (95) | 2005 | 1992 | 360 |
| Colonial Town | Orlando | FL | 4,564 | 1,040 | 3,439 | 4,479 | 269 | 1,040 | 3,708 | 4,748 | (565) | 2001 | 2001 | 360 |
| Davie | Davie | FL | | 1,890 | 3,021 | 4,911 | 3,997 | 2,633 | 6,275 | 8,908 | (2,314) | 1996 | 1990 | 360 |
| Daytona Beach | Daytona Beach | FL | 2,902 | 1,620 | 3,165 | 4,785 | 174 | 1,651 | 3,308 | 4,959 | (729) | 1999 | 1999 | 360 |
| Delray Beach | Delray Beach | FL | | 748 | 2,993 | 3,741 | 347 | 748 | 3,340 | 4,088 | (1,114) | 1996 | 1986 | 360 |
| Eau Gallie | Melbourne | FL | 2,607 | 629 | 2,718 | 3,347 | 139 | 649 | 2,837 | 3,486 | (640) | 1999 | 1999 | 360 |
| Fairbanks | Winter Park | FL | | 1,104 | 3,329 | 4,433 | 165 | 1,104 | 3,494 | 4,598 | (411) | 2002 | 2002 | 360 |
| Hunt Club | Apopka | FL | | 764 | 3,614 | 4,378 | | 764 | 3,614 | 4,378 | (328) | 2003 | 2003 | 360 |
| Hyde Park | Tampa | FL | 2,907 | 1,237 | 2,773 | 4,010 | 1,000 | 1,243 | 3,767 | 5,010 | (761) | 2000 | 1999 | 360 |
| Kirkman | Orlando | FL | | 954 | 3,151 | 4,105 | | 954 | 3,151 | 4,105 | (74) | 2005 | 1990 | 360 |
| Lauderhill | Lauderhill | FL | | 761 | 3,164 | 3,925 | 325 | 761 | 3,489 | 4,250 | (1,050) | 1997 | 1986 | 360 |
| Maguire | Orlando | FL | 3,501 | 954 | 4,244 | 5,198 | | 954 | 4,244 | 5,198 | (26) | 2005 | 2005 | 360 |
| Maitland | Maitland | FL | 4,426 | 74 | 4,985 | 5,059 | 575 | 106 | 5,528 | 5,634 | (1,598) | 1997 | 1997 | 360 |
| Margate | Margate | FL | | 906 | 3,623 | 4,529 | (9) | 906 | 3,614 | 4,520 | (1,175) | 1996 | 1984 | 360 |
| McCoy-Wells Fargo NW | Orlando | FL | | 765 | 3,700 | 4,465 | 16 | 765 | 3,716 | 4,481 | (542) | 2001 | 2001 | 360 |
| Military Trail | West Palm Beach | FL | | 1,140 | 4,564 | 5,704 | 222 | 1,140 | 4,786 | 5,926 | (1,912) | 1987 | 1981 | 360 |
| Oakland Park | FT Lauderdale | FL | | 2,443 | 9,878 | 12,321 | 217 | 2,439 | 10,099 | 12,538 | (4,073) | 1985 | 1974/78 | 360 |
| Oldsmar | Oldsmar | FL | 2,273 | 606 | 2,787 | 3,393 | 155 | 628 | 2,920 | 3,548 | (516) | 2000 | 2000 | 360 |
| Ormond Beach | Ormond Beach | FL | 2,912 | 761 | 3,202 | 3,963 | 253 | 792 | 3,424 | 4,216 | (739) | 1999 | 1999 | 360 |
| Oviedo | Oviedo | FL | 2,744 | 527 | 2,716 | 3,243 | 331 | 535 | 3,039 | 3,574 | (907) | 1997 | 1997 | 360 |
| Red Bug | Wintersprings | FL | 2,530 | 856 | 2,951 | 3,807 | 150 | 825 | 3,132 | 3,957 | (867) | 1997 | 1997 | 360 |
| Seminole | Seminole | FL | | 336 | 1,344 | 1,680 | 181 | 336 | 1,525 | 1,861 | (654) | 1986 | 1984/85 | 360 |
| South Orange | Orlando | FL | 3,032 | 715 | 2,709 | 3,424 | 349 | 741 | 3,032 | 3,773 | (893) | 1997 | 1997 | 360 |
| South Semoran | Orlando | FL | 2,701 | 933 | 3,184 | 4,117 | 862 | 965 | 4,014 | 4,979 | (1,037) | 1997 | 1997 | 360 |
| University | Orlando | FL | | 1,140 | 4,374 | 5,514 | 7 | 1,140 | 4,381 | 5,521 | (587) | 2002 | 2002 | 360 |
| Vineland | Orlando | FL | 1,896 | 1,752 | 1,165 | 2,917 | | 638 | 2,279 | 2,917 | (522) | 1999 | 1999 | 360 |
| West Town | Altamonte Springs | FL | 2,155 | 657 | 3,070 | 3,727 | 439 | 728 | 3,438 | 4,166 | (843) | 1998 | 1998 | 360 |
| West Waters | Tampa | FL | 2,269 | 950 | 3,569 | 4,519 | 168 | 950 | 3,737 | 4,687 | (650) | 2000 | 2000 | 360 |
| Ansley Park | Atlanta | GA | | 804 | 3,255 | 4,059 | 3,130 | 1,301 | 5,888 | 7,189 | (2,374) | 1995 | 1991 | 360 |
| Brookhaven | Atlanta | GA | | 1,082 | 2,223 | 3,305 | 2,589 | 1,568 | 4,326 | 5,894 | (1,718) | 1995 | 1992 | 360 |
| Clairmont Road | Atlanta | GA | | 470 | 1,907 | 2,377 | 370 | 470 | 2,277 | 2,747 | (723) | 1996 | 1990 | 360 |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | Accum. Depr. | Owned Since | Year Built | Depr. Life in mos. |
|--------------------|--------------------|----------------------|------------------|--------------|--------------------------|-----------------------|---------------------------------|--------------------------------------|-------------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building, Equip. & Other | Gross Storage Centers | | Land Held for Sale | Building Equip. & Other | Gross Storage centers | | | | |
| Decatur | Decatur | GA | | 644 | 2,719 | 3,363 | 2,665 | 1,111 | 4,917 | 6,028 | (1,973) | 1995 | 1992 | 360 |
| Forest Park | Forest Park | GA | | 573 | 2,293 | 2,866 | 201 | 573 | 2,494 | 3,067 | (850) | 1996 | 1980 | 360 |
| Gwinnett Place | Lawrenceville | GA | | 820 | 2,324 | 3,144 | 551 | 820 | 2,875 | 3,695 | (948) | 1996 | 1996 | 360 |
| Holcomb Bridge | Roswell | GA | 2,750 | 917 | 2,991 | 3,908 | 8 | 920 | 2,996 | 3,916 | (582) | 1999 | 2000 | 360 |
| Jones Bridge | Alpharetta | GA | | 676 | 3,833 | 4,509 | 28 | 630 | 3,907 | 4,537 | (1,038) | 1997 | 1997 | 360 |
| Lawrenceville | Lawrenceville | GA | | 858 | 3,064 | 3,922 | 162 | 858 | 3,226 | 4,084 | (874) | 1997 | 1997 | 360 |
| Morgan Falls | Atlanta | GA | | 1,429 | 5,718 | 7,147 | 382 | 1,429 | 6,100 | 7,529 | (1,985) | 1996 | 1990 | 360 |
| Norcross | Norcross | GA | | 562 | 2,248 | 2,810 | 193 | 562 | 2,441 | 3,003 | (831) | 1996 | 1984 | 360 |
| Peachtree | Duluth | GA | | 1,144 | 4,784 | 5,928 | 213 | 1,144 | 4,997 | 6,141 | (1,564) | 1997 | 1996 | 360 |
| Perimeter Center | Atlanta | GA | | 1,458 | 2,715 | 4,173 | 256 | 1,458 | 2,971 | 4,429 | (1,030) | 1996 | 1996 | 360 |
| Roswell | Roswell | GA | | 435 | 1,743 | 2,178 | 289 | 435 | 2,032 | 2,467 | (814) | 1986 | 1986 | 360 |
| Sandy Plains | Marietta | GA | | 1,012 | 4,066 | 5,078 | 449 | 1,012 | 4,515 | 5,527 | (1,089) | 1998 | 1998 | 360 |
| Satellite Blvd | Atlanta | GA | | 670 | 2,831 | 3,501 | 146 | 670 | 2,977 | 3,647 | (892) | 1997 | 1994 | 360 |
| Stone Mountain | Stone Mountain | GA | | 656 | 2,637 | 3,293 | 262 | 656 | 2,899 | 3,555 | (961) | 1996 | 1985 | 360 |
| Tucker | Tucker | GA | | 241 | 656 | 897 | 509 | 241 | 1,165 | 1,406 | (390) | 1996 | 1987 | 360 |
| Alsip | Alsip | IL | | 250 | 1,001 | 1,251 | 1,520 | 250 | 2,521 | 2,771 | (824) | 1982 | 1980 | 360 |
| Berwyn | Berwyn | IL | | 868 | 5,375 | 6,243 | 69 | 868 | 5,444 | 6,312 | (694) | 2002 | 2002 | 360 |
| Bolingbrook | Bolingbrook | IL | | 641 | 2,631 | 3,272 | 571 | 641 | 3,202 | 3,843 | (838) | 1997 | 1997 | 360 |
| Bridgeview | Bridgeview | IL | | 479 | 1,917 | 2,396 | 253 | 479 | 2,170 | 2,649 | (890) | 1985 | 1983 | 360 |
| Chicago Heights | Chicago Heights | IL | | 1,543 | 3,575 | 5,118 | (5) | 1,543 | 3,570 | 5,113 | (466) | 2002 | 2002 | 360 |
| Country Club Hills | Country Club Hills | IL | | 777 | 3,109 | 3,886 | 596 | 781 | 3,701 | 4,482 | (789) | 1999 | 1999 | 360 |
| Dolton | Calumet City | IL | | 344 | 1,489 | 1,833 | 1,502 | 344 | 2,991 | 3,335 | (1,003) | 1982 | 1979 | 360 |
| Fox Valley | Aurora | IL | | 927 | 2,986 | 3,913 | 30 | 932 | 3,011 | 3,943 | (815) | 1998 | 1998 | 360 |
| Fullerton | Chicago | IL | | 3,325 | 6,965 | 10,290 | 98 | 3,325 | 7,063 | 10,388 | (614) | 2003 | 2003 | 360 |
| Glenview | Glenview | IL | | 1,003 | 3,878 | 4,881 | 25 | 1,003 | 3,903 | 4,906 | (388) | 2003 | 2003 | 360 |
| West Hillside | Hillside | IL | | 261 | 1,043 | 1,304 | 308 | 261 | 1,351 | 1,612 | (516) | 1988 | 1988 | 360 |
| Lincolnwood | Lincolnwood | IL | | 818 | 4,356 | 5,174 | 5 | 818 | 4,361 | 5,179 | (680) | 2001 | 2001 | 360 |
| Lisle | Lisle | IL | | 575 | 2,335 | 2,910 | 304 | 576 | 2,638 | 3,214 | (1,073) | 1986 | 1976/86 | 360 |
| Lombard | Lombard | IL | | 392 | 1,566 | 1,958 | 269 | 239 | 1,988 | 2,227 | (836) | 1982 | 1980 | 360 |
| Niles | Niles | IL | | 1,449 | 3,935 | 5,384 | 161 | 1,449 | 4,096 | 5,545 | (524) | 2002 | 2002 | 360 |
| Oak Forest | Orland Park | IL | | 704 | 1,869 | 2,573 | 1,493 | 704 | 3,362 | 4,066 | (1,206) | 1995 | 1991 | 360 |
| Palatine | Palatine | IL | 2,134 | 413 | 2,213 | 2,626 | 1,146 | 453 | 3,319 | 3,772 | (582) | 2000 | 2000 | 360 |
| River West | Chicago | IL | | 1,187 | 5,116 | 6,303 | 333 | 1,187 | 5,449 | 6,636 | (426) | 2003 | 2003 | 360 |
| Rolling Meadows | Rolling Meadows | IL | | 384 | 1,587 | 1,971 | 550 | 384 | 2,137 | 2,521 | (812) | 1982 | 1980 | 360 |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | Accum. Depr. | Owned Since | Year Built | Depr. Life in mos. |
|---------------|----------------|----------------------|------------------|--------------|--------------------------|-----------------------|---------------------------------|--------------------------------------|------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building, Equip. & Other | Gross Storage Centers | | Land and Land Held for Sale | Building & Other | Gross Storage centers | | | | |
| Schaumburg | Schaumburg | IL | | 443 | 1,808 | 2,251 | 501 | 429 | 2,323 | 2,752 | (887) | 1982 | 1980 | 360 |
| Schaumburg | | | | | | | | | | | | | | |
| South | Schaumburg | IL | | 490 | 3,231 | 3,721 | 1,531 | 921 | 4,331 | 5,252 | (911) | 1999 | 1999 | 360 |
| Wheaton | Wheaton | IL | | 247 | 4,190 | 4,437 | 80 | 221 | 4,296 | 4,517 | (744) | 2002 | 2001 | 360 |
| Willowbrook | Willowbrook | IL | | 412 | 1,650 | 2,062 | 433 | 412 | 2,083 | 2,495 | (820) | 1986 | 1979/82 | 360 |
| Carmel | Carmel | IN | | 404 | 2,560 | 2,964 | 24 | 404 | 2,584 | 2,988 | (899) | 1996 | 1996 | 360 |
| Castleton | Indianapolis | IN | | 494 | 1,969 | 2,463 | 189 | 522 | 2,130 | 2,652 | (609) | 1998 | 1988 | 360 |
| College Park | Indianapolis | IN | | 694 | 2,777 | 3,471 | 778 | 694 | 3,555 | 4,249 | (1,388) | 1986 | 1984 | 360 |
| Downtown | | | | | | | | | | | | | | |
| Indy | Indianapolis | IN | 2,792 | 947 | 3,393 | 4,340 | (17) | 1,286 | 3,037 | 4,323 | (637) | 2004 | 2000 | 360 |
| Eagle Creek | Indianapolis | IN | | 802 | 2,646 | 3,448 | 76 | 802 | 2,722 | 3,524 | (733) | 1998 | 1998 | 360 |
| East 62nd | | | | | | | | | | | | | | |
| Street | Indianapolis | IN | | 376 | 1,629 | 2,005 | | 376 | 1,629 | 2,005 | (221) | 2002 | 1999 | 360 |
| East | | | | | | | | | | | | | | |
| Washington | | | | | | | | | | | | | | |
| St. | Indianapolis | IN | 2,136 | 399 | 2,583 | 2,982 | 20 | 412 | 2,590 | 3,002 | (539) | 1999 | 1999 | 360 |
| Fishers | Fishers | IN | | 827 | 3,394 | 4,221 | 424 | 827 | 3,818 | 4,645 | (1,089) | 1997 | 1987 | 360 |
| Geist | Fishers | IN | | 547 | 2,356 | 2,903 | 5 | 547 | 2,361 | 2,908 | (328) | 2002 | 1999 | 360 |
| Georgetown | Indianapolis | IN | | 461 | 2,143 | 2,604 | 432 | 461 | 2,575 | 3,036 | (804) | 1996 | 1996 | 360 |
| Glendale | Indianapolis | IN | | 520 | 2,077 | 2,597 | 210 | 520 | 2,287 | 2,807 | (949) | 1986 | 1985 | 360 |
| North | | | | | | | | | | | | | | |
| Greenwood | Indianapolis | IN | | | 2,600 | 2,600 | 65 | | 2,665 | 2,665 | (684) | 1998 | 1998 | 360 |
| Speedway | Indianapolis | IN | | 472 | 2,094 | 2,566 | 177 | 452 | 2,291 | 2,743 | (291) | 2002 | 2002 | 360 |
| Annapolis | Annapolis | MD | | | 3,432 | 3,432 | 90 | | 3,522 | 3,522 | (917) | 1998 | 1998 | 360 |
| Briggs | | | | | | | | | | | | | | |
| Chaney | Silver Springs | MD | | 430 | 1,727 | 2,157 | 187 | 430 | 1,914 | 2,344 | (757) | 1994 | 1987 | 360 |
| Clinton | Clinton | MD | | 303 | 1,213 | 1,516 | 2,106 | 650 | 2,972 | 3,622 | (927) | 1986 | 1985 | 360 |
| Crofton | Gambrills | MD | | 376 | 1,516 | 1,892 | 161 | 376 | 1,677 | 2,053 | (674) | 1988 | 1985 | 360 |
| Frederick | | | | | | | | | | | | | | |
| Road | Frederick | MD | | 206 | 826 | 1,032 | 154 | 206 | 980 | 1,186 | (409) | 1994 | 1987 | 360 |
| Gaithersburg | Gaithersburg | MD | | 614 | 2,465 | 3,079 | 1,634 | 614 | 4,099 | 4,713 | (1,493) | 1994 | 1986 | 360 |
| Germantown | Germantown | MD | | 552 | 2,218 | 2,770 | 231 | 552 | 2,449 | 3,001 | (942) | 1994 | 1988 | 360 |
| Laurel | Laurel | MD | | 391 | 1,570 | 1,961 | 298 | 391 | 1,868 | 2,259 | (752) | 1988 | 1984 | 360 |
| Oxon Hill | FT Washington | MD | | 349 | 1,401 | 1,750 | 192 | 349 | 1,593 | 1,942 | (608) | 1994 | 1987 | 360 |
| Reisterstown | Owing Mills | MD | | 586 | 1,177 | 1,763 | 176 | 586 | 1,353 | 1,939 | (178) | 2002 | 1992 | 360 |
| Suitland | Suitland | MD | | 660 | 2,638 | 3,298 | 246 | 660 | 2,884 | 3,544 | (1,171) | 1987 | 1985 | 360 |
| Ann Arbor | Ann Arbor | MI | | 424 | 1,695 | 2,119 | 295 | 424 | 1,990 | 2,414 | (878) | 1988 | 1977 | 360 |
| Auburn Hills | Auburn Hills | MI | | 565 | 2,798 | 3,363 | 198 | 565 | 2,996 | 3,561 | (475) | 2002 | 2001 | 360 |
| Canton | Canton | MI | | 433 | 1,797 | 2,230 | 447 | 433 | 2,244 | 2,677 | (789) | 1988 | 1986 | 360 |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | Accum. Depr. | Owned Since | Year Built | Depr. Life in mos. |
|-------------------------|------------------|----------------------|------------------|--------------|--------------------------|-----------------------|---------------------------------|--------------------------------------|-------------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building, Equip. & Other | Gross Storage Centers | | Land and Land Held for Sale | Building Equip. & Other | Gross Storage centers | | | | |
| Canton South | Canton | MI | 2,591 | 842 | 2,308 | 3,150 | 803 | 852 | 3,101 | 3,953 | (557) | 2000 | 2000 | 360 |
| Clinton Township | Clinton Township | MI | | 754 | 3,195 | 3,949 | 267 | 772 | 3,444 | 4,216 | (794) | 1999 | 1999 | 360 |
| Dearborn | Dearborn | MI | | 1,773 | 2,694 | 4,467 | | 1,773 | 2,694 | 4,467 | (238) | 2003 | 2003 | 360 |
| Farmington Hills | Farmington Hills | MI | | 1,361 | 3,597 | 4,958 | 6 | 1,361 | 3,603 | 4,964 | (234) | 2004 | 2004 | 360 |
| Flint South | Flint | MI | | 615 | 1,738 | 2,353 | 273 | 615 | 2,011 | 2,626 | (301) | 2001 | 1983 | 360 |
| Fraser | Fraser | MI | | 627 | 2,599 | 3,226 | 290 | 627 | 2,889 | 3,516 | (917) | 1988 | 1985 | 360 |
| Jackson | Jackson | MI | | 317 | 1,282 | 1,599 | (376) | 309 | 914 | 1,223 | (4) | 1997 | 1978 | 360 |
| Lansing | Lansing | MI | | 124 | 500 | 624 | (184) | 124 | 316 | 440 | (2) | 1983 | 1978/79 | 360 |
| Livonia | Livonia | MI | | 636 | 2,634 | 3,270 | 532 | 636 | 3,166 | 3,802 | (944) | 1988 | 1985 | 360 |
| Madison Heights | Madison Height | MI | | 487 | 2,099 | 2,586 | 772 | 487 | 2,871 | 3,358 | (951) | 1995 | 1977 | 360 |
| Mt. Clemens | Mt. Clemens | MI | 1,856 | 935 | 2,614 | 3,549 | (130) | 935 | 2,484 | 3,419 | (390) | 2001 | 2001 | 360 |
| Plymouth | Canton Township | MI | | 348 | 1,436 | 1,784 | 1,295 | 348 | 2,731 | 3,079 | (970) | 1985 | 1979 | 360 |
| Rochester Hills | Shelby Township | MI | | 610 | 2,445 | 3,055 | 201 | 610 | 2,646 | 3,256 | (880) | 1996 | 1989 | 360 |
| Rochester Hills | Rochester Hills | MI | | 970 | 3,929 | 4,899 | 84 | 970 | 4,013 | 4,983 | (613) | 2001 | 2001 | 360 |
| Roseville | Roseville | MI | | 931 | 3,295 | 4,226 | 2 | 931 | 3,297 | 4,228 | (235) | 2003 | 2003 | 360 |
| Southfield | Southfield | MI | | 702 | 2,824 | 3,526 | 721 | 702 | 3,545 | 4,247 | (1,326) | 1983 | 1976 | 360 |
| Southfield at Telegraph | Southfield | MI | | 702 | 2,824 | 3,526 | 2,461 | 1,333 | 4,654 | 5,987 | (579) | 2002 | 2002 | 360 |
| Sterling Heights | Sterling Heights | MI | | 919 | 3,692 | 4,611 | 174 | 919 | 3,866 | 4,785 | (1,283) | 1996 | 1986 | 360 |
| Taylor | Taylor | MI | | 632 | 2,094 | 2,726 | 1,586 | 632 | 3,680 | 4,312 | (1,311) | 1995 | 1980 | 360 |
| Troy Maple | Troy | MI | | 556 | 2,243 | 2,799 | 3,359 | 1,987 | 4,171 | 6,158 | (1,451) | 1981 | 1975/77 | 360 |
| Troy Oakland Mall | Troy | MI | | 642 | 2,604 | 3,246 | 762 | 642 | 3,366 | 4,008 | (1,313) | 1983 | 1979 | 360 |
| Walled Lake | Walled Lake | MI | | 359 | 1,437 | 1,796 | 564 | 359 | 2,001 | 2,360 | (796) | 1985 | 1984 | 360 |
| Warren | Warren | MI | | 683 | 2,831 | 3,514 | 1,376 | 815 | 4,075 | 4,890 | (1,110) | 1988 | 1985 | 360 |
| Westland | Westland | MI | | 617 | 3,607 | 4,224 | | 617 | 3,607 | 4,224 | (363) | 2003 | 2003 | 360 |
| Anoka | Anoka | MN | | 368 | 1,714 | 2,082 | 125 | 368 | 1,839 | 2,207 | (166) | 2003 | 1986 | 360 |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | Accum. Depr. | Owned Since | Year Built | Depr. Life in mos. |
|-------------------------|---------------|----------------------|------------------|--------------|--------------------------|---------------------------------|--------------------------------------|------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building, Equip. & Other | | Land and Land Held for Sale | Building & Other | Gross Storage centers | | | | |
| Apple Valley | Apple Valley | MN | | 633 | 3,103 | 3,736 | 44 | 633 | 3,147 | 3,780 | (272) | 2003 | 2001 360 |
| Brooklyn Park | Brooklyn Park | MN | | 1,226 | 3,195 | 4,421 | 232 | 1,226 | 3,427 | 4,653 | (283) | 2003 | 1986 360 |
| Burnsville | Burnsville | MN | | 661 | 3,074 | 3,735 | 40 | 661 | 3,114 | 3,775 | (276) | 2003 | 1999 360 |
| Chanhassen | Chanhassen | MN | | 774 | 4,343 | 5,117 | 79 | 774 | 4,422 | 5,196 | (389) | 2003 | 1988/2000 360 |
| Coon Rapids | Coon Rapids | MN | | 971 | 4,161 | 5,132 | 133 | 971 | 4,294 | 5,265 | (366) | 2003 | 1986/1997 360 |
| Eden Prairie East | Prairie | MN | | 1,182 | 4,894 | 6,076 | 162 | 1,182 | 5,056 | 6,238 | (432) | 2003 | 1978/1992 360 |
| Eden Prairie West | Eden Prairie | MN | | 913 | 5,151 | 6,064 | 189 | 913 | 5,340 | 6,253 | (439) | 2003 | 1988/1997 360 |
| Edina | Edina | MN | | 1,316 | 5,627 | 6,943 | 63 | 1,316 | 5,690 | 7,006 | (475) | 2003 | 1998 360 |
| Hopkins | Hopkins | MN | | 829 | 2,522 | 3,351 | 60 | 829 | 2,582 | 3,411 | (219) | 2003 | 1989/1995 360 |
| Little Canada | Little Canada | MN | | 1,233 | 8,182 | 9,415 | 410 | 1,233 | 8,592 | 9,825 | (708) | 2003 | 1982/1997 360 |
| Maple Grove | Maple Grove | MN | | 653 | 2,199 | 2,852 | 39 | 653 | 2,238 | 2,891 | (194) | 2003 | 1996 360 |
| Minnetonka | Minnetonka | MN | | 631 | 3,089 | 3,720 | 327 | 631 | 3,416 | 4,047 | (267) | 2003 | 1994 360 |
| Plymouth 169 | Plymouth | MN | | 534 | 1,175 | 1,709 | 20 | 534 | 1,195 | 1,729 | (106) | 2003 | 1972 360 |
| Plymouth 494 | Plymouth | MN | | 1,364 | 4,025 | 5,389 | (5) | 1,364 | 4,020 | 5,384 | (344) | 2003 | 1978 360 |
| Plymouth West | Plymouth | MN | | 813 | 3,346 | 4,159 | 48 | 813 | 3,394 | 4,207 | (286) | 2003 | 2001 360 |
| Richfield | Richfield | MN | | 1,298 | 5,458 | 6,756 | 18 | 1,298 | 5,476 | 6,774 | (485) | 2003 | 1983 360 |
| Shorewood | Shorewood | MN | | 1,039 | 5,793 | 6,832 | 158 | 1,039 | 5,951 | 6,990 | (510) | 2003 | 1984/1998 360 |
| Woodbury | Woodbury | MN | | 1,097 | 4,467 | 5,564 | 30 | 1,097 | 4,497 | 5,594 | (393) | 2003 | 2000 360 |
| Southaven | Hornlake | MS | 1,761 | 814 | 1,863 | 2,677 | 1,007 | 835 | 2,849 | 3,684 | (614) | 1998 | 1998/2004 360 |
| Albermarle | Charlotte | NC | 3,308 | 707 | 3,960 | 4,667 | 149 | 707 | 4,109 | 4,816 | (517) | 2002 | 1984 360 |
| Amity Ct | Charlotte | NC | 1,842 | 433 | 2,054 | 2,487 | 57 | 459 | 2,085 | 2,544 | (280) | 2002 | 1993 360 |
| Arrowood | Charlotte | NC | 2,597 | 1,155 | 2,541 | 3,696 | 212 | 1,218 | 2,690 | 3,908 | (363) | 2002 | 1992 360 |
| Atlantic Avenue Capital | Raleigh | NC | | 1,424 | 4,058 | 5,482 | | 1,424 | 4,058 | 5,482 | (96) | 2005 | 1997 360 |
| Boulevard | Raleigh | NC | | 342 | 1,376 | 1,718 | 1,308 | 339 | 2,687 | 3,026 | (798) | 1994 | 1984 360 |
| Cary | Cary | NC | | 714 | 2,860 | 3,574 | 1,843 | 714 | 4,703 | 5,417 | (1,224) | 1994 | 1984 360 |
| Clayton | Clayton | NC | | 764 | 2,344 | 3,108 | 473 | 807 | 2,774 | 3,581 | (305) | 2002 | 1999 360 |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| | | INITIAL COST | | | | | | Gross Amount as of | | | | | | Depr. | |
|-----------------|---------------|----------------------|------------------|--------------------------|-------|-----------------------|---------------------------------|--------------------|-------|----------------------------------|-----------------------|--------------|-------------|------------|--------------|
| Property Name | Location | State or Country (3) | Encumbrances (2) | Building, Equip. & Other | | Gross Storage Centers | Costs Subsequent to Acquisition | December 31, 2005 | | Land and Building Equip. & Other | Gross Storage centers | Accum. Depr. | Owned Since | Year Built | Life in mos. |
| | | | | Land | | | | Land Held for Sale | | | | | | | |
| Concord | Concord | NC | 1,897 | 665 | 1,949 | 2,614 | 110 | 703 | 2,021 | 2,724 | (260) | 2002 | 1995 | 360 | |
| Cone Blvd | Greensboro | NC | 1,070 | 599 | 3,024 | 3,623 | 507 | 651 | 3,479 | 4,130 | (419) | 2002 | 2000 | 360 | |
| COTT | Matthews | NC | 857 | 237 | 1,210 | 1,447 | 49 | 273 | 1,223 | 1,496 | (155) | 2002 | 1989 | 360 | |
| Country Club | Winston Salem | NC | | 757 | 3,198 | 3,955 | 1,355 | 803 | 4,507 | 5,310 | (411) | 2002 | 2000 | 360 | |
| Creedmoor | Raleigh | NC | | 807 | 3,178 | 3,985 | 15 | 807 | 3,193 | 4,000 | (858) | 1997 | 1997 | 360 | |
| Eastland | Charlotte | NC | 2,228 | 536 | 3,209 | 3,745 | 144 | 536 | 3,353 | 3,889 | (416) | 2002 | 1983 | 360 | |
| English Rd | High Point | NC | | 602 | 2,020 | 2,622 | 433 | 636 | 2,419 | 3,055 | (285) | 2002 | 2000 | 360 | |
| Friendly Avenue | Greensboro | NC | | 657 | 3,175 | 3,832 | | 657 | 3,175 | 3,832 | (77) | 2005 | 1997 | 360 | |
| Garner | Garner | NC | | 204 | 818 | 1,022 | 188 | 250 | 960 | 1,210 | (392) | 1994 | 1987 | 360 | |
| Gastonia | Gastonia | NC | 2,200 | 881 | 2,138 | 3,019 | | 881 | 2,138 | 3,019 | (75) | 2005 | 2005 | 360 | |
| Glenwood | Raleigh | NC | | 266 | 1,066 | 1,332 | 139 | 266 | 1,205 | 1,471 | (509) | 1994 | 1983 | 360 | |
| Glenwood Avenue | Raleigh | NC | | 1,214 | 2,975 | 4,189 | | 1,214 | 2,975 | 4,189 | (71) | 2005 | 1997 | 360 | |
| Hickory | Hickory | NC | 4,317 | 892 | 2,885 | 3,777 | 3,770 | 1,410 | 6,137 | 7,547 | (773) | 2002 | 1986 | 360 | |
| Lexington NC | Lexington | NC | 1,046 | 430 | 1,315 | 1,745 | 83 | 425 | 1,403 | 1,828 | (188) | 2002 | 1987 | 360 | |
| Matthews | Matthews | NC | 1,733 | 775 | 4,709 | 5,484 | 26 | 743 | 4,767 | 5,510 | (603) | 2002 | 1981 | 360 | |
| Monroe | Monroe | NC | 2,125 | 506 | 2,628 | 3,134 | 10 | 506 | 2,638 | 3,144 | (369) | 2002 | 1985 | 360 | |
| Morrisville | Morrisville | NC | | 409 | 1,640 | 2,049 | 144 | 409 | 1,784 | 2,193 | (725) | 1994 | 1988 | 360 | |
| N. Tryon | Charlotte | NC | 1,974 | 873 | 2,175 | 3,048 | 125 | 873 | 2,300 | 3,173 | (309) | 2002 | 1987 | 360 | |
| Park Rd | Charlotte | NC | | 1,014 | 3,337 | 4,351 | 2 | 1,014 | 3,339 | 4,353 | (428) | 2002 | 1998 | 360 | |
| Pavilion | Charlotte | NC | 1,487 | 1,320 | 1,969 | 3,289 | 61 | 1,298 | 2,052 | 3,350 | (254) | 2002 | 1997 | 360 | |
| Pineville | Pineville | NC | 9,168 | 2,334 | 4,764 | 7,098 | 151 | 2,334 | 4,915 | 7,249 | (652) | 2002 | 1983 | 360 | |
| Poole Road | Raleigh | NC | | 1,123 | 1,266 | 2,389 | | 1,123 | 1,266 | 2,389 | (31) | 2005 | 1998 | 360 | |
| Randleman | Greensboro | NC | 1,950 | 1,094 | 2,314 | 3,408 | 9 | 1,094 | 2,323 | 3,417 | (293) | 2002 | 1998 | 360 | |
| Rockingham | Rockingham | NC | 774 | 157 | 1,564 | 1,721 | 20 | 157 | 1,584 | 1,741 | (209) | 2002 | 1996 | 360 | |
| Salisbury | Salisbury | NC | 3,188 | 155 | 4,617 | 4,772 | 97 | 155 | 4,714 | 4,869 | (579) | 2002 | 1986 | 360 | |
| Silas Creek | Winston Salem | NC | | 1,640 | 2,311 | 3,951 | 1,035 | 1,691 | 3,295 | 4,986 | (381) | 2002 | 2000 | 360 | |
| South Boulevard | Charlotte | NC | 4,794 | 2,180 | 3,926 | 6,106 | 36 | 2,180 | 3,962 | 6,142 | (221) | 2004 | 1996 | 360 | |
| South Raleigh | Raleigh | NC | | 792 | 610 | 1,402 | | 792 | 610 | 1,402 | (15) | 2005 | 1997 | 360 | |
| Stallings | Matthews | NC | 2,068 | 747 | 1,689 | 2,436 | 535 | 786 | 2,185 | 2,971 | (317) | 2002 | 1995 | 360 | |
| Wake Forest | Wake Forest | NC | 713 | 851 | 1,484 | 2,335 | 500 | 901 | 1,934 | 2,835 | (237) | 2002 | 1998 | 360 | |
| Weddington | Waxhaw | NC | 2,386 | 642 | 2,345 | 2,987 | 71 | 706 | 2,352 | 3,058 | (293) | 2002 | 1999 | 360 | |
| Wendover | Charlotte | NC | | 1,736 | 6,402 | 8,138 | | 1,736 | 6,402 | 8,138 | (151) | 2005 | 2003 | 360 | |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | Accum. Depr. | Owned Since | Year Built | Depr. Life in mos. |
|--------------------|---------------|----------------------|------------------|--------------|--------------------------|-----------------------|---------------------------------|--------------------------------------|-------------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building, Equip. & Other | Gross Storage Centers | | Land Held for Sale | Building Equip. & Other | Gross Storage centers | | | | |
| Winston | Charlotte | NC | 1,968 | 548 | 2,777 | 3,325 | 115 | 548 | 2,892 | 3,440 | (363) | 2002 | 1986 | 360 |
| Winston | Winston Salem | NC | 1,171 | 354 | 1,441 | 1,795 | 252 | 328 | 1,719 | 2,047 | (232) | 2002 | 1985 | 360 |
| Bricktown | Bricktown | NJ | 3,699 | 1,398 | 2,640 | 4,038 | 2,423 | 1,957 | 4,504 | 6,461 | (749) | 2004 | 2000 | 360 |
| Marlboro | Morganville | NJ | | 1,320 | 4,963 | 6,283 | 75 | 1,320 | 5,038 | 6,358 | (814) | 2001 | 2001 | 360 |
| Marlton | Marlton | NJ | | 842 | 4,643 | 5,485 | 77 | 842 | 4,720 | 5,562 | (421) | 2003 | 2003 | 360 |
| Old Bridge | Matawan | NJ | | 767 | 2,301 | 3,068 | 2,185 | 767 | 4,486 | 5,253 | (1,479) | 1987 | 1987/2000 | 360 |
| Rockaway (dover) | Dover | NJ | | 2,038 | 3,983 | 6,021 | 38 | 2,038 | 4,021 | 6,059 | (421) | 2003 | 2003 | 360 |
| Voorhees | Voorhees | NJ | | 1,121 | 4,268 | 5,389 | (60) | 1,121 | 4,208 | 5,329 | (674) | 2001 | 2001 | 360 |
| West Paterson | West Paterson | NJ | | 1,944 | 6,367 | 8,311 | 66 | 1,944 | 6,433 | 8,377 | (399) | 2004 | 2004 | 360 |
| Bethpage | Bethpage | NY | 6,475 | 2,370 | 6,209 | 8,579 | 2,674 | 3,417 | 7,836 | 11,253 | (1,211) | 2004 | 2000 | 360 |
| Commack | Commack | NY | 6,140 | 3,461 | 6,203 | 9,664 | 212 | 3,461 | 6,415 | 9,876 | (1,430) | 1999 | 1999 | 360 |
| Gold Street | Brooklyn | NY | | 1,194 | 4,821 | 6,015 | 1,622 | 1,194 | 6,443 | 7,637 | (2,590) | 1986 | 1940 | 360 |
| Great Neck | Great Neck | NY | 2,047 | 436 | 2,632 | 3,068 | 320 | 438 | 2,950 | 3,388 | (569) | 1999 | 1929/2000 | 360 |
| Hempstead | Hempstead | NY | 4,420 | 1,902 | 4,572 | 6,474 | 1,450 | 2,599 | 5,325 | 7,924 | (969) | 2004 | 2000 | 360 |
| Melville | Melville | NY | | 1,099 | 3,897 | 4,996 | 3,739 | 1,099 | 7,636 | 8,735 | (1,595) | 1998 | 1998 | 360 |
| Nesconset | Nesconset | NY | 3,048 | 1,072 | 2,919 | 3,991 | 665 | 1,074 | 3,582 | 4,656 | (678) | 2000 | 2000 | 360 |
| Northern Boulevard | Long Island | NY | | 1,244 | 5,039 | 6,283 | 1,119 | 1,244 | 6,158 | 7,402 | (2,561) | 1987 | 1940 | 360 |
| Utica Avenue | Brooklyn | NY | | 830 | 3,556 | 4,386 | 653 | 830 | 4,209 | 5,039 | (1,728) | 1986 | 1964 | 360 |
| Van Dam Street | Long Island | NY | | 760 | 3,189 | 3,949 | 540 | 760 | 3,729 | 4,489 | (1,621) | 1986 | 1925 | 360 |
| Yonkers | Yonkers | NY | | 913 | 3,936 | 4,849 | 739 | 913 | 4,675 | 5,588 | (2,008) | 1986 | 1928 | 360 |
| 16th & Sandy | Portland | OR | | 231 | 938 | 1,169 | 1,521 | 492 | 2,198 | 2,690 | (700) | 1995 | 1973 | 360 |
| Allen Boulevard | Beaverton | OR | | 525 | 2,101 | 2,626 | 121 | 525 | 2,222 | 2,747 | (734) | 1996 | 1973 | 360 |
| Barbur Boulevard | Portland | OR | | 337 | 3,411 | 3,748 | 2,612 | 790 | 5,570 | 6,360 | (2,157) | 1995 | 1993 | 360 |
| Beaverton | Beaverton | OR | | 216 | 4,201 | 4,417 | | 216 | 4,201 | 4,417 | (161) | 1985 | 2005 | 360 |
| Denney Road | Beaverton | OR | | 593 | 2,380 | 2,973 | 271 | 593 | 2,651 | 3,244 | (1,070) | 1989 | 1988 | 360 |
| Division | Portland | OR | | 352 | 1,395 | 1,747 | 2,708 | 809 | 3,646 | 4,455 | (1,320) | 1996 | 1992 | 360 |
| Gresham | Gresham | OR | | 744 | 2,442 | 3,186 | 122 | 744 | 2,564 | 3,308 | (864) | 1996 | 1996 | 360 |
| Hillsboro | Hillsboro | OR | | 720 | 2,992 | 3,712 | 185 | 720 | 3,177 | 3,897 | (1,047) | 1996 | 1996 | 360 |

Table of Contents**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**

| Property Name | Location | State or Country (3) | Encumbrances (2) | INITIAL COST | | | Costs Subsequent to Acquisition | Gross Amount as of December 31, 2005 | | | Accum. Depr. | Owned Since | Year Built | Depr. Life in mos. |
|--------------------|----------------|----------------------|------------------|--------------|--------------------------|-----------------------|---------------------------------|--------------------------------------|------------------|-----------------------|--------------|-------------|------------|--------------------|
| | | | | Land | Building, Equip. & Other | Gross Storage Centers | | Land Held for Sale | Building & Other | Gross Storage centers | | | | |
| King City / Tigard | Tigard | OR | | 511 | 2,051 | 2,562 | 228 | 511 | 2,279 | 2,790 | (929) | 1987 | 1986 | 360 |
| Liberty Road | Salem | OR | | 524 | 1,280 | 1,804 | 3,971 | 889 | 4,886 | 5,775 | (1,245) | 1995 | 1993 | 360 |
| Milwaukie | Milwaukie | OR | | 583 | 2,005 | 2,588 | 3,290 | 1,161 | 4,717 | 5,878 | (1,687) | 1996 | 1990 | 360 |
| Oregon City | Oregon City | OR | | 321 | 1,613 | 1,934 | 2,088 | 715 | 3,307 | 4,022 | (1,334) | 1995 | 1992 | 360 |
| Portland | Portland | OR | | 382 | 1,530 | 1,912 | 160 | 382 | 1,690 | 2,072 | (694) | 1988 | 1988 | 360 |
| Salem | Salem | OR | | 574 | 2,294 | 2,868 | 519 | 574 | 2,813 | 3,387 | (1,172) | 1983 | 1979/81 | 360 |
| Airport | Philadelphia | PA | | 799 | 3,194 | 3,993 | 731 | 799 | 3,925 | 4,724 | (1,509) | 1986 | 1985 | 360 |
| Edgemont | Newton Square | PA | | 497 | 3,070 | 3,567 | 2,761 | 949 | 5,379 | 6,328 | (2,075) | 1995 | 1992 | 360 |
| Jenkintown | Jenkintown | PA | | 1 | 2,247 | 2,248 | 115 | | 2,363 | 2,363 | (128) | 2004 | 2004 | 360 |
| Oxford Valley | Fairless Hills | PA | | 1,197 | 4,174 | 5,371 | 84 | 1,197 | 4,258 | 5,455 | (558) | 2002 | 2002 | 360 |
| Painters Crossing | Glen Mills | PA | | 513 | 2,868 | 3,381 | 9 | 511 | 2,879 | 3,390 | (765) | 1998 | 1998 | 360 |
| Valley Forge | Berwyn | PA | | 331 | 2,816 | 3,147 | 594 | | 3,741 | 3,741 | (416) | 2002 | 2002 | 360 |
| Westchester | West Chester | PA | | | 4,197 | 4,197 | 578 | | 4,775 | 4,775 | (1,931) | 1986 | 1980 | 360 |
| Ashley River | Charleston | SC | | 851 | 3,880 | 4,731 | 5 | 910 | 3,826 | 4,736 | (483) | 2002 | 1999 | 360 |
| Ballantyne | Fort Mill | SC | | 640 | 1,976 | 2,616 | 638 | 681 | 2,573 | 3,254 | (286) | 2002 | 1998 | 360 |
| Charleston | Ladson | SC | 1,892 | 403 | 3,063 | 3,466 | 505 | 467 | 3,504 | 3,971 | (427) | | | |