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PUBLIC STORAGE INC /CA
Form S-4
March 11, 2002

As filed with the Securities and Exchange Commission on _____, 2002
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-4
REGISTRATION STATEMENT
Under
The Securities Act of 1933

PUBLIC STORAGE, INC.
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation or organization)

95-3551121
I.R.S. Employer Identification No.)

6798
(Primary Standard Industrial
Classification Code Number)

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)

HARVEY LENKIN
Public Storage, Inc.
701 Western Avenue
Glendale, California 91201-2397
(818) 244-8080
(Name, address, including zip
code, and telephone number,
including area code, of agent
for service)

Copies to:

DAVID GOLDBERG, ESQ.
Public Storage, Inc.
701 Western Avenue
Glendale, California 91201-2397

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this
Registration Statement.

If the only securities being registered on this Form are being offered in
connection with the formation of a holding company and there is compliance with
General Instruction G, 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, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant
to Rule 462(b) 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.

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[] If this Form is a post-effective amendment filed pursuant to Rule 462(d) 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. []

CALCULATION OF REGISTRATION FEE

| Title Of Each Class Of Securities To Be Registered | Amount To Be Registered | Offering Price Per Share | Proposed Maximum Aggregate Offering Price |
|--|-------------------------|--------------------------|---|
| Common Stock, \$.10 par value per share | 1,500,000 shares(1) | (1) | \$12,994,443(1) |

- (1) This Registration Statement relates to the proposed acquisition by the Registrant of all of the 55,150 units of limited partnership interest ("Units") in PS Partners V, Ltd., a California Limited Partnership (the "Partnership") that are not currently owned by the Registrant. The Registrant's acquisition of the 55,150 Units will be accomplished through a merger of a subsidiary of the Registrant into the Partnership and the conversion of the 55,150 Units into either cash or common stock of the Registrant. The book value of the Units at September 30, 2001 was \$235.62 per Unit. The maximum number of shares of Registrant to be issued in the merger is 1,500,000. The exact number of shares of common stock of the Registrant to be issued in the merger cannot be determined at this time.
- (2) Calculated in accordance with rule 457(f)(2) under the Securities Act of 1933. \$1,196 of the registration fee was previously paid in connection with the Partnership's preliminary information statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Preliminary Copy
Confidential, For
Use of the Commission Only

PS Partners V, Ltd.,
a California Limited Partnership

701 Western Avenue
Glendale, California 91201-2397

_____, 2002

Dear Limited Partner:

We enclose an information statement, notice of action without a meeting and prospectus and accompanying cash election form relating to the acquisition by Public Storage of all of the units of limited partnership interest in the Partnership not currently owned by Public Storage. Public Storage, a general partner of the Partnership, owns 63% of the Partnership units. Public Storage is acquiring the units through a merger in which each of your units will be converted into the right to receive a value of \$596 in Public Storage common stock or, at your election, in cash.

The Partnership is not asking you to approve the merger or related amendment to the partnership agreement. Public Storage, the holder of a majority of the Partnership units, has executed a written consent approving the merger and the related amendment to the partnership agreement.

We are not asking you for a proxy and you are requested not to send us a proxy. If you want to receive cash in this transaction, you must make a cash election by _____, 2002, as described in the accompanying cash election form.

If you have any questions, please contact Public Storage's Investor Services Department at (800) 421-2856 or (818) 244-8080.

Very truly yours,

PUBLIC STORAGE, INC.
General Partner

By: Harvey Lenkin
President

Public Storage, Inc.
PS Partners V, Ltd.,
a California Limited Partnership

INFORMATION STATEMENT, NOTICE OF ACTION WITHOUT A MEETING AND PROSPECTUS

We are furnishing this information statement, notice of action without a meeting and prospectus to limited partners of PS Partners V, Ltd., a California Limited Partnership (the "Partnership") in connection with the acquisition by Public Storage, Inc. of all of the units of limited partnership interest not currently owned by Public Storage. Public Storage, a general partner of the Partnership, owns 63% of the Partnership units. Public Storage is acquiring the units through a merger in which each unit not currently owned by Public Storage will be converted into the right to receive a value of \$596 in Public Storage common stock or, at your election, in cash.

See "Risk Factors" beginning on page 12 for certain factors that you should consider, including the following:

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- o Public Storage owns sufficient Partnership units to approve the merger without your vote and has done so.
- o Public Storage and the Partnership have not (1) negotiated the merger at arm's length, (2) hired independent persons to negotiate the terms of the merger for you or (3) asked any person to make an offer to buy the Partnership's assets.
- o The merger will be taxable for most of you. This means that original taxable limited partners who receive either cash or stock will recognize a substantial taxable gain.
- o After the merger, if you do not elect cash you will own an investment in an ongoing fully-integrated real estate company instead of an interest in a specified portfolio of properties for a fixed period.
- o If you receive Public Storage common stock, your level of distributions may be lower after the merger than the amount you received as a limited partner of the Partnership.
- o The Partnership's assets might be worth more later. Public Storage will realize the benefit of any increase in value.
- o You will not be entitled to dissenters' rights of appraisal under California law in the merger.
- o Public Storage, which controls the Partnership, has significant conflicts of interest in connection with, and will benefit from, the merger. In the absence of these conflicts, the terms of the merger may have been more favorable to you.

The Public Storage common stock is traded on the New York Stock Exchange under the symbol "PSA". On _____, 2002, the closing price of the Public Storage common stock on the NYSE was \$_____. There is no active market for the Partnership units.

The Partnership is not asking you to approve the merger or related amendment to the partnership agreement. Public Storage, the holder of a majority of the Partnership units, has executed a written consent approving the merger and the related amendment to the partnership agreement. We are mailing this statement on or about _____, 2002 to limited partners of record at the close of business on the date of this statement.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY. IF YOU WANT TO RECEIVE CASH IN THIS TRANSACTION, YOU MUST MAKE A CASH ELECTION BY _____, 2002, AS DESCRIBED IN THE ACCOMPANYING CASH ELECTION FORM.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE'S SECURITIES REGULATOR HAS APPROVED THE COMMON STOCK OF PUBLIC STORAGE TO BE ISSUED UNDER THIS INFORMATION STATEMENT, NOTICE OF ACTION WITHOUT A MEETING AND PROSPECTUS OR DETERMINED IF THIS INFORMATION STATEMENT, NOTICE OF ACTION WITHOUT A MEETING AND PROSPECTUS IS ACCURATE OR ADEQUATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

_____, 2002

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|------------|--|
| | of February 25, 2002. |
| Appendix B | - Real Estate Appraisal Report by The Nicholson Group, Ltd. for the Partnership dated February 22, 2002 |
| Appendix C | - Opinion of Robert A. Stanger & Co., Inc. dated March 7, 2002 |
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SUMMARY

The following summary is qualified by the detailed information appearing elsewhere in this statement, including the appendices.

Overview of Merger

Public Storage is acquiring the Partnership units Public Storage does not currently own in the merger under the Agreement and Plan of Reorganization attached as Appendix A to this statement as follows:

- o A wholly owned, second tier subsidiary of Public Storage will be merged into the Partnership.
- o Each Partnership unit (other than units owned by Public Storage) will be converted into the right to receive a value of \$596 in Public Storage common stock or, at your election, in cash. To be effective you must make a cash election by _____, 2002, as described in the accompanying cash election form.
- o The Partnership will make distributions to holders of Partnership units to cause the estimated net asset value per unit as of _____, 2002, the Effective Date, to be substantially equivalent to \$596.
- o The market value of the Public Storage common stock issued in the merger will be based on the average of the per share closing prices of the Public Storage common stock on the NYSE during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Date.
- o Following the merger, Public Storage will own all Partnership units (through wholly owned entities).

See "The Merger - Determination of Amounts to be Received by Limited Partners in the Merger." For a description of the terms of the merger, see "The Merger - The Merger Agreement."

The Public Storage common stock is listed on the NYSE. On _____, 2002, the last full trading day prior to the date of this statement, the reported closing price per share of Public Storage common stock was \$_____. There is no established trading market for the Partnership units. See "Distributions and Price Range of Public Storage Common Stock" and "Distributions and Market Prices of Partnership Units."

Summary Risk Factors

The merger involves certain risks and detriments that you should consider, including the following:

- o Vote by Public Storage. Public Storage owns sufficient Partnership

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units to approve the merger without your vote and has done so.

- o No Arm's Length Negotiation or Independent Representatives. Public Storage and the Partnership have not (1) negotiated the merger at arm's length or (2) hired independent persons to negotiate the terms of the merger for you. If independent persons had been hired, the terms of the merger may have been more favorable to you. In addition, Public Storage and the Partnership have not asked any person to make an offer to buy the Partnership's assets. Other offers could have generated higher prices.
- o The Merger Is Taxable. The merger will be taxable for most of you. This means that original taxable limited partners who receive either cash or stock will recognize a substantial taxable gain.
- o Change from Finite Life to Infinite Life. After the merger, if you do not elect cash you will own an investment in an ongoing integrated real estate company instead of an interest in a specified portfolio of properties for a fixed period. Public Storage.

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- * changes its portfolio of properties from time to time without approval of shareholders;
- * does not plan to sell its assets within a fixed period of time; and
- * is engaged in all aspects of the mini-warehouse industry, including property development and management.

If you receive Public Storage common stock in the merger, you will be able to liquidate your investment only by selling your shares. The market value of your shares may or may not reflect the full fair market value of Public Storage's assets and will fluctuate.

- o Possible Lower Level of Distributions After the Merger. If you receive Public Storage common stock, your level of distributions may be lower after the merger than the amount you received as a limited partner of the Partnership.
- o Potential Loss of Future Appreciation. The Partnership's assets may be worth more later. Public Storage will realize the benefit of any increase in value.
- o No Dissenters' Rights of Appraisal. You will not be entitled to dissenters' rights of appraisal under California law in the merger.
- o Conflicts of Interest. Public Storage, which controls the Partnership, has conflicts of interest in, and will benefit from, the merger. Public Storage has an interest in acquiring Partnership units at the lowest possible price, while you have an interest in selling your units at the highest possible price. In the absence of these conflicts, the terms of the merger may have been more favorable to you.
- o Control and Influence over Public Storage by the Hughes Family and Public Storage Ownership Limitations. The public shareholders of

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Public Storage are substantially limited in their ability to control Public Storage. The Hughes family owns approximately 34% of the Public Storage common stock (approximately 38% upon conversion of the Public Storage class B common stock). Also, Public Storage's charter documents restrict the number of Public Storage shares that may be owned by any other person. These ownership factors should prevent any takeover of Public Storage not approved by Mr. Hughes.

- o Uncertainty Regarding Market Price of Public Storage Common Stock. The market price of Public Storage common stock may fluctuate after the date that the number of shares to be issued to you is determined, but before those shares actually are issued. In addition, the market price could decrease because of sales of shares issued in this merger and for other reasons.
- o Tax Risks of Ownership of Public Storage Common Stock - Failure to Maintain REIT Status. Public Storage is subject to tax risks, including risks as to Public Storage's continued qualification for income tax purposes as a "Real Estate Investment Trust" or "REIT."
- o Financing Risks. Public Storage, unlike the Partnership, borrows money (\$149 million at September 30, 2001), which increases the risk of loss.
- o Possible Future Dilution. The issuance of additional stock by Public Storage can reduce the interest of Public Storage shareholders. Public Storage has outstanding preferred stock (\$1.67 billion at September 30, 2001) and intends to issue additional preferred stock that prevents payment of distributions on Public Storage common stock unless distributions are paid quarterly on the preferred stock.

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- o Merger Payments Based on Appraisal Instead of Arm's Length Negotiation. The amount you receive in the merger is based on a third party appraisal of the Partnership's Properties. However, appraisals are opinions as of the date specified and are subject to certain assumptions. The true worth or realizable value of these properties may be higher or lower than the appraised value.

Benefits to Insiders

The merger involves certain benefits to Public Storage, including the following:

- o Own All Partnership Units. As a result of the merger, Public Storage will own all of the Partnership units without taxable gain to Public Storage.
- o Cost Efficiencies. The merger will eliminate almost all Partnership administrative expenses, much of which has been borne by Public Storage as owner of 63% of the Partnership units.
- o Issue Capital Stock. The merger will enable Public Storage, which is seeking to expand its capital base, to issue up to 1,500,000 shares of common stock.
- o Eliminate Conflicts of Interest. The merger will eliminate the

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conflicts of interest resulting from the competition of the Partnership's properties with other mini-warehouses owned by Public Storage.

Potential Benefits of the Merger

The following are the principal potential benefits of the merger to you:

- (1) If you elect to receive cash, you will liquidate your investment at approximately 119% of your original investment (excluding prior distributions received) and at an amount substantially higher than the prices in the limited secondary transactions involving Partnership units. Also, you will simplify your tax reporting for years after 2002.
- (2) If you receive Public Storage common stock, the principal potential benefits to you are:
 - o Ownership Interest in a Diversified Real Estate Company. Because the Partnership is not authorized to issue new securities or to reinvest sale or financing proceeds, the Partnership is less able to take advantage of new real estate investment opportunities. In contrast, Public Storage has a substantially larger, more diversified investment portfolio that reduces the risks associated with any particular assets or group of assets and increases Public Storage's ability to access capital markets for new capital investments.
 - o Increased Liquidity. There is no active market for the Partnership units. In comparison, Public Storage has approximately 113 million shares of common stock listed on the NYSE with an average daily trading volume during the 12 months ended September 30, 2001 of approximately 174,000 shares. Given Public Storage's market capitalization and trading volume, you are likely to enjoy a more active trading market and increased liquidity for the Public Storage common stock you receive.
 - o Simplified Tax Reporting. The merger will simplify your tax reporting for years after 2002.

The Partnership

The Partnership owns one mini-warehouse directly and interests in 32 mini-warehouses jointly with Public Storage (collectively, the "Properties"). The Partnership also owns a 1% interest in PS Business Parks, L.P. ("PSBP") alone and an additional 2% interest jointly with Public Storage. Public Storage has a significant interest in PSBP, which owns and operates commercial properties. See "Description of Partnership's Properties."

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The general partners of the Partnership are Public Storage and Mr. Hughes. Public Storage manages and operates the Properties under the "Public Storage" name. See "Description of Partnership Properties." There is no active market for the Partnership units. See "Distributions and Market Prices of Partnership Units."

Public Storage

Public Storage is a fully integrated, self-administered and

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self-managed REIT that acquires, develops, owns and operates mini-warehouses. Public Storage is the largest owner and operator of mini-warehouses in the United States. At September 30, 2001, Public Storage had equity interests (through direct ownership, as well as general and limited partnership interests) in 1,378 storage facilities located in 37 states. Public Storage also has an interest in PSBP.

Address and Phone Number

The principal executive offices of the Partnership and Public Storage are located at 701 Western Avenue, Glendale, California 91201-2397. The telephone number is (818) 244-8080.

Background and Reasons for the Merger

Public Storage and the Partnership have not negotiated the merger at arm's length. Public Storage has structured the merger. Public Storage controls the Partnership and has significant conflicts of interest in connection with, and will benefit from, the merger. Public Storage and Mr. Hughes, the general partners of the Partnership, believe that the merger is fair to you. This is based in significant part on a third party appraisal of the Properties and on the opinion of a financial advisor, in which the general partners concur.

The general partners organized the Partnership in 1985 to acquire properties jointly with Public Storage and alone. The Partnership is well beyond its original anticipated term. The Partnership originally anticipated selling the Properties and liquidating from five to eight years after acquisition, i.e., between 1991 and 1994.

Public Storage was organized in 1980 and has increased its asset and capital base substantially since that time. Much of Public Storage's growth has resulted from increasing its interest in affiliated entities, like the Partnership.

After the merger, Public Storage will own all of the Partnership units, and the merger will eliminate almost all Partnership administrative expenses, including the cost of operating as a public entity.

The consideration you receive in the merger is based on the appraised value of the Properties as determined by a third party appraiser, The Nicholson Group, Ltd. ("TNG"), as of December 31, 2001. The general partners believe that the merger is fair to you. This is based in significant part on the TNG appraisal of the Properties and on the opinion of a financial advisor, Robert A. Stanger & Co., Inc. ("Stanger"), in which the general partners concur.

The general partners considered liquidation and continued ownership by limited and general partners as alternatives to the merger. Based on a comparison of the potential benefits and detriments of the merger with these alternatives, the general partners concluded that the merger would be more attractive to you than the alternatives considered. The general partners did not ask any person to buy the Partnership's assets.

In comparing the merger to other alternatives, the general partners noted the following:

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Liquidation. The general partners oppose a sale of the Properties because they believe that the Properties may continue to appreciate in value. In the merger, you may either (1) convert your investment into an investment in

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Public Storage, which like the Partnership primarily owns mini-warehouses, or (2) receive cash based on the appraised value of the Properties. However, if the Partnership liquidated its assets through asset sales to unaffiliated third parties, you would not need to rely upon a real estate portfolio appraisal to estimate the fair market value of the Properties.

Continued Ownership. The Partnership is operating profitably. Continued ownership by the limited and general partners should provide you with continued distributions of net operating cash flow and participation in any future potential appreciation of the Properties and would avoid many of the risks described under "Risk Factors." However, continued ownership by the limited and general partners would fail to secure the potential benefits of the merger to you described under "The Merger - Potential Benefits of the Merger" or to Public Storage described under "The Merger - Benefits to Insiders."

Detriments of the Merger

For a summary of certain risks and detriments of the merger, refer to "- Summary Risk Factors" beginning on page 2.

Determination of Amounts to be Received by Limited Partners in the Merger

The general partners have determined the amount to be received by you in the merger based on the estimated net asset value per Partnership unit computed as follows:

| | |
|---|--------------|
| Estimated value of Partnership's interest in the Properties (1) | \$63,419,000 |
| Plus: | |
| Market value of Partnership's interest in PSBP (2) | 24,271,000 |
| Partnership's interest in other tangible net assets and liabilities (3) | 1,343,000 |
| | ----- |
| Net proceeds available for distribution | 89,033,000 |
| Distributions to general partners (4) | (890,000) |
| | ----- |
| Distributions to limited partners | \$88,143,000 |
| | ===== |
| Amount per Partnership unit (5) | \$596 |
| | ===== |

-
- (1) Reflects appraised value of the Properties determined by TNG as of December 31, 2001. Assumes a sale of the Properties at the appraised value and that the proceeds from the sale of the Properties are allocated between the Partnership and Public Storage based on their joint venture agreement. See "Description of Partnership's Properties" and "The Merger - Real Estate Portfolio Appraisal by TNG".
- (2) Reflects closing price of shares of PS Business Parks, Inc. on The American Stock Exchange, Inc. ("AMEX") as of December 31, 2001 (the PSBP partnership interests are exchangeable for those shares on a one unit for one share basis). Assumes a sale of the units at that price and an allocation of the proceeds between the Partnership and Public Storage based on their joint venture agreement. See note (7) to table in "The Merger - Determination of Amounts to be Received by Limited Partners in the Merger."

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- (3) Reflects the Partnership's interest in cash and other non-real estate assets offset by the Partnership's interest in prepaid rents, security deposits, accounts payable and accrued expenses as of September 30, 2001.
- (4) Represents subordinated incentive distributions payable to the general partners and distributions attributable to the general partners' 1% capital interest in the Partnership. In accordance with the Partnership Agreement, no subordinated incentive distributions are payable at this time.
- (5) Based on 148,000 Partnership units.

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Federal Income Tax Matters

The merger will be a taxable event and result in taxable gain or loss to most of you whether you receive cash or stock. Taxable limited partners will recognize gain or loss in an amount equal to the difference between the value of what they receive in the merger (cash or stock) and their adjusted basis in their Partnership units. It has been estimated that an original limited partner will realize approximately \$320 of taxable gain per Partnership unit as a result of the merger (assuming that the merger is effective as of the end of the first quarter of 2002). The merger should not be a taxable event to Public Storage. See "Federal Income Tax Considerations - The Merger."

Fairness Analysis; Opinion of Financial Advisor

Public Storage and the Partnership have not negotiated the merger at arm's length. Public Storage has structured the merger. Public Storage controls the Partnership and has significant conflicts of interest in connection with, and will benefit from, the merger. The general partners believe that the merger is fair to you. This is based in significant part on the TNG appraisal and the opinion of a financial advisor, in which the general partners concur.

The general partners base their conclusion on the following factors:

- o The TNG appraisal of the Properties.
- o Stanger delivered a fairness opinion to the Partnership.
- o Although the merger has been structured by Public Storage, the merger provides you with a choice of converting your investment into an investment in Public Storage or receiving cash for your investment.
- o Based on certain significant assumptions, qualifications and limitations, the consideration to be received by you compares favorably with other alternatives.

The general partners believe that the consideration to be received by you in the merger compares favorably with:

- o the prices of the limited secondary sales of Partnership units;
- o a range of estimated going-concern values per unit;
- o an estimated liquidation value per unit; and

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- o the book value per unit.

The general partners recognize that these comparisons are subject to significant assumptions, qualifications and limitations. See "The Merger - Comparison of Consideration to be Received in the Merger to Other Alternatives."

The Partnership engaged Stanger to deliver a written summary of its determination as to the fairness of the consideration to be received in the merger, from a financial point of view, to you. The full text of the opinion is set forth in Appendix C to this statement and should be read in its entirety. Subject to the assumptions, qualifications and limitations contained in the fairness opinion, the fairness opinion concludes that, as of the date of the fairness opinion, the consideration to be received in the merger is fair to you, from a financial point of view. In arriving at its opinion, Stanger considered, among other things

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- o the independent appraised value of the Properties;
- o the estimated liquidation value of the Partnership prepared by the Partnership, based upon a sale of the Partnership's assets to a third party for cash;
- o financial analyses and projections prepared by the general partners concerning the going-concern value of the Partnership under its current business plan; and
- o a comparison of limited secondary sales prices of Partnership units with the consideration being received by you in the merger.
- o The Partnership did not ask Stanger to
- o select the method of determining the consideration being received by you in the merger;
- o make any recommendation to you whether to select cash or Public Storage common stock in the merger; or
- o express any opinion as to the business decision regarding the merger or its alternatives or tax factors resulting from the merger or relating to Public Storage's qualification as a REIT.

Stanger's opinion is based on business, economic, real estate and securities markets and other conditions as of the date of its analysis. See "The Merger - Fairness Opinion from Stanger."

The general partners believe that hiring TNG to appraise the Properties and Stanger to deliver a fairness opinion helped the general partners fulfill their duties to you. However, the Partnership is paying TNG and Stanger for their services and Public Storage is expected to pay them for other assignments. See "The Merger - Real Estate Portfolio Appraisal by TNG" and "- Fairness Opinion from Stanger."

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Comparison of Partnership Units with Public Storage Common Stock

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The information below summarizes certain principal differences between the Partnership units and the Public Storage common stock. The effect of the merger if you receive Public Storage common stock is set forth in italics below each comparison. For an expanded discussion of these and other comparisons and effects, see "The Merger - Comparison of Partnership Units with Public Storage Common Stock."

INVESTMENT OBJECTIVES AND POLICIES

Partnership:

To provide (1) quarterly cash distributions from operations and (2) long-term capital gains through appreciation in the value of the Properties.

Public Storage:

To maximize funds from operations, or FFO, allocable to holders of Public Storage common stock and to increase shareholder value through internal growth and acquisitions. FFO is a supplemental performance measure for equity REITs used by industry analysts. FFO does not take into consideration principal payments on debt, capital improvements, distributions and other obligations of Public Storage. Accordingly, FFO is not a substitute for Public Storage's net cash provided by operating activities or net income as a measure of Public Storage's liquidity or operating performance. An increase in Public Storage's FFO will not necessarily correspond with an increase in distributions to holders of Public Storage common stock. See "-Liquidity, Marketability and Distributions."

If you receive Public Storage common stock in the merger, you will change your investment from "finite-life" to "infinite life" and realize the value of your investment only by selling your Public Storage common stock. If Public Storage issues additional securities, including securities that would have priority over Public Storage common stock as to cash flow, distributions and liquidation proceeds, it will dilute the interest of Public Storage shareholders. Public Storage intends to issue additional securities under a currently effective registration statement. See "Risk Factors - Uncertainty Regarding Market Price of Public Storage Common Stock" and "- Financing Risks - Dilution and Subordination."

BORROWING POLICIES

Partnership:

No outstanding borrowings.

Public Storage:

Permitted to borrow in furtherance of its investment objectives, subject to certain limitations.

Public Storage has outstanding debt and reinvests proceeds from borrowings. Incurring debt increases the risk of loss of investment. Public Storage does not plan to finance the Properties.

TRANSACTIONS WITH AFFILIATES

Partnership:

Limited partner approval required for a variety of business transactions with

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affiliates. See "Amendment to Partnership Agreement."

Public Storage:

Restricted from acquiring properties from its affiliates or from selling properties to them unless the transaction is approved by a majority of Public Storage's independent directors and is fair to Public Storage based on an independent appraisal.

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Given Public Storage's control of all Partnership voting decisions, both Public Storage and the Partnership can enter into transactions with affiliates without the need for approval of either the public shareholders or public limited partners. In the case of Public Storage, however, these transactions require approval of Public Storage's independent directors.

PROPERTIES (AS OF SEPTEMBER 30, 2001)

Partnership:

Direct and indirect equity interests in 33 mini-warehouses in 14 states. Also owns an interest in PSBP.

Public Storage:

Direct and indirect equity interests in 1,378 storage facilities in 37 states. Also owns interest in PSBP.

Because Public Storage owns substantially more property interests in more states than the Partnership, the operations of a single property have less effect on Public Storage's results of operations than in the case of the Partnership. Also, it would be more difficult to liquidate Public Storage than the Partnership within a reasonable period of time.

LIQUIDITY, MARKETABILITY AND DISTRIBUTIONS

Partnership:

No active trading market for Partnership units. The Partnership may not issue securities having priority over Partnership units.

Public Storage:

Public Storage common stock is traded on the NYSE. During the 12 months ended September 30, 2001, the average daily trading volume of Public Storage common stock was approximately 174,000 shares. Public Storage has issued, and may in the future issue, securities that have priority over Public Storage common stock as to cash flow, distributions and liquidation proceeds.

The Partnership pays distributions to limited partners from cash available for distribution. Tax laws require Public Storage to distribute at least 90% of its ordinary REIT taxable income in order to maintain its qualification as a REIT. Since Public Storage distributes less than its cash available for distribution (recently distributing amounts approximately equal to its taxable income), it is able to retain funds for additional investment and debt reduction.

If you receive Public Storage common stock in the merger, the market for your investment will be broader and more active than the market for Partnership units. Distributions on Public Storage common stock may be lower

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than the distributions on the Partnership units. Distributions on Public Storage common stock also are subject to priority of preferred stock.

ADDITIONAL ISSUANCES OF SECURITIES AND ANTI-TAKEOVER PROVISIONS

Partnership:

The partnership agreement does not provide for the issuance of additional Partnership units.

Public Storage:

Subject to the rules of the NYSE and applicable provisions of California law, Public Storage can issue authorized capital stock without shareholder approval.

Both the Partnership and Public Storage can deter attempts to obtain control in transactions not approved by management. In the case of the Partnership, Public Storage owns a majority of the Partnership units. In the case of Public Storage, the Hughes family effectively controls Public Storage and Public Storage has the flexibility to issue capital stock, including senior securities with special voting rights and priority over Public Storage common stock.

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Summary Financial Information

The financial data in this section should be read in conjunction with the financial statements included in this statement and in the documents to which limited partners have been referred.

Public Storage:

| | Years Ended December 31, | | | | |
|---|---|-------------|-------------|-------------|-------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 |
| | ----- (\$ In thousands, except per share data) | | | | |
| Operating Data: | | | | | |
| Total revenues | \$336,376 | \$469,051 | \$581,085 | \$676,734 | \$757,000 |
| Depreciation and amortization | 64,999 | 92,750 | 111,799 | 137,719 | 148,000 |
| Interest expense | 8,482 | 6,792 | 4,507 | 7,971 | 3,000 |
| Minority interest in income | 9,363 | 11,684 | 20,290 | 16,006 | 38,000 |
| Net income | \$153,549 | \$178,649 | \$227,019 | \$287,885 | \$297,000 |
| Balance Sheet Data (at end of period): | | | | | |
| Total cash and cash equivalents | \$26,856 | \$41,455 | \$51,225 | \$55,125 | \$89,000 |
| Total assets | 2,572,152 | 3,311,645 | 3,403,904 | 4,214,385 | 4,513,000 |
| Total debt | 108,443 | 103,558 | 81,426 | 167,338 | 156,000 |
| Minority interest | 116,805 | 288,479 | 139,325 | 186,600 | 532,000 |
| Shareholders' equity | \$2,305,437 | \$2,848,960 | \$3,119,340 | \$3,689,100 | \$3,724,000 |

Per Share of Common Stock:

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| | | | | | |
|--|------------|------------|-------------|-------------|---------|
| Net income-basic (1) | \$1.10 | \$.92 | \$1.30 | \$1.53 | \$ |
| Net income-diluted (1) | 1.10 | .91 | 1.30 | 1.52 | |
| Distributions (2) | .88 | .88 | .88 | 1.52 | |
| Book value (at end of period) (3) | \$15.43 | \$17.19 | \$18.30 | \$18.95 | \$1 |
| Weighted average-diluted shares of common stock (in thousands) | 77,358 | 98,961 | 114,357 | 126,669 | 131 |

Footnotes on next page.

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Partnership:

| | Years Ended December 31, | | | | |
|---------------------------------------|--------------------------------------|---------|---------|---------|---------|
| | 1996 | 1997 | 1998 | 1999 | 2000 |
| | ----- | | | | |
| | | | | | |
| | (In thousands, except per unit data) | | | | |
| Operating Data: | | | | | |
| Total revenues | \$3,467 | \$3,420 | \$3,930 | \$4,199 | \$5,000 |
| Depreciation and amortization | 521 | 49 | 49 | 55 | 55 |
| Net income | | | | | |
| Limited partners' share | 1,771 | 2,692 | 3,190 | 3,254 | 4,199 |
| General partners' share | 416 | 426 | 431 | 632 | 632 |
| Balance Sheet Data (at end of period) | | | | | |
| Cash and cash equivalents | 194 | 1,002 | 2,702 | 2,295 | 2,295 |
| Total assets | 38,192 | 37,306 | 36,935 | 34,876 | 34,876 |
| Limited Partners' per Unit Data (4) | | | | | |
| Net income | \$11.97 | \$18.19 | \$21.55 | \$21.99 | \$36.03 |
| Cash distributions (5) | 24.00 | 24.00 | 24.00 | 36.03 | 36.03 |
| Book value (limited partners' equity) | 254.07 | 248.26 | 245.82 | 231.77 | 222.00 |

Partnership - Pro Forma

| | |
|--------------------------------------|-----------|
| Per equivalent Partnership Unit (6): | |
| Net income-diluted | \$ 18.08 |
| Distributions paid on common stock | \$ 19.84 |
| Book value (at September 30, 2001) | \$ 289.92 |

- (1) Net income per common share is computed in accordance with Statement of Financial Accounting Standard No. 128 (SFAS 128) - "Earnings per Share" and is presented on the diluted basis using the weighted average shares of Public Storage common stock outstanding-diluted. The diluted net income per common share is computed using the weighted average common shares outstanding (adjusted for stock options). Beginning in 2000,

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6,790,000 of the 7,000,000 shares of class B common stock are included in the determination of net income per common share.

- (2) For federal income tax purposes, distributions for all periods were characterized as ordinary income. All distributions for generally accepted accounting principles ("GAAP") were from investment income.
- (3) Book value per share computed based on the number of shares of Public Storage common stock and Public Storage class B common stock outstanding.
- (4) Limited partners' per unit data is based on the weighted average number of Partnership units (148,000) outstanding during the year.
- (5) The Partnership distributed, concurrently with the distribution for the first quarter of 1999, a portion of the operating reserve estimated at \$12.03 per Unit. In the third quarter of 2000, distributions included an additional portion of the operating reserve estimated at \$9.63 per Unit. The Partnership distributed \$12.64 in the fourth quarter of 2001, including a special distribution of \$6.02.

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- (6) Presents pro forma amounts of Public Storage per equivalent Partnership unit. Net income, cash distributions and book value data are calculated by multiplying Public Storage's historical results (before impact of the merger, which is not expected to have a material impact on Public Storage's per share amounts) by an assumed exchange ratio of approximately 16 (the Partnership's merger value of \$596 divided by an assumed issue price of Public Storage common stock of \$37.25).

Relationships

The following charts show the relationships among Mr. Hughes, Public Storage and the Partnership both before and after the merger (assuming maximum cash elections). As reflected in the charts below, Mr. Hughes, Public Storage's chairman of the board and chief executive officer, effectively controls Public Storage. Public Storage and Mr. Hughes are the general partners of the Partnership. Public Storage and the Partnership jointly own 32 of the 33 Properties, all of which are managed by Public Storage

Before the Merger

| | | |
|-----------------|--|-------------------------------|
| Public Storage: | Hughes - 34% | Public Shareholders - 66% |
| Partnership: | Hughes - General Partner | Public Limited Partners - 37% |
| | Public Storage - General Partner, Joint Venture, | Property Manager, 63% |

After the Merger

(Assuming Maximum Cash Elections)

| | | |
|-----------------|--|---------------------------|
| Public Storage: | Hughes - 34% | Public Shareholders - 66% |
| Partnership: | Hughes - General Partner | |
| | Public Storage - General Partner, Joint Venture, | Property Manager, 100% |

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SOLID LINES INDICATE OWNERSHIP INTERESTS AND BROKEN LINES INDICATE

OTHER RELATIONSHIPS.

PERCENTAGE OF OWNERSHIP OF THE PARTNERSHIP BY PUBLIC STORAGE REPRESENTS PERCENTAGE OF UNITS OF LIMITED PARTNERSHIP INTEREST OWNED BY PUBLIC STORAGE. BOTH BEFORE AND AFTER THE MERGER, PUBLIC STORAGE'S GENERAL AND LIMITED PARTNER INTERESTS ARE OWNED INDIRECTLY THROUGH WHOLLY OWNED ENTITIES. PERCENTAGE OF STOCK OWNERSHIP OF PUBLIC STORAGE BY MR. HUGHES REPRESENTS PERCENTAGE OF OUTSTANDING SHARES OF PUBLIC STORAGE COMMON STOCK OWNED BY HUGHES AND MEMBERS OF HIS IMMEDIATE FAMILY.

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RISK FACTORS

The merger involves certain risks and detriments that you should consider, including the following:

Public Storage has approved the merger without your vote.

Public Storage, as owner of 63% of the Partnership units, owns sufficient units to approve the merger without your vote and has voted its units in favor of the merger.

Public Storage and the Partnership have not hired anyone to represent you.

Public Storage and the Partnership have not (1) negotiated the merger at arm's length or (2) hired independent persons to negotiate the terms of the merger for you. If independent persons had been hired, the terms of the merger may have been more favorable to you. In addition, Public Storage and the Partnership have not asked any person to make an offer to buy the Partnership's assets. Other offers could have generated higher prices.

The merger is taxable to you.

The merger will be taxable to most of you. This means that original taxable limited partners who receive either cash or stock will recognize a substantial taxable gain.

The merger will change your investment from finite life to infinite life if you receive stock.

The Partnership is a limited partnership organized to hold interests in properties for a fixed period. In contrast, Public Storage, which is engaged in all aspects of the mini-warehouse industry, including property development and management, intends to operate for an indefinite period. Therefore, if you receive Public Storage common stock in the merger, you will be able to liquidate your investment only by selling your shares on the NYSE or in private transactions. The market value of Public Storage common stock may or may not reflect the full fair market value of Public Storage's assets and will fluctuate.

Your level of distributions may be lower after the merger if you receive stock.

If you receive Public Storage common stock in the merger, your level of distributions may be lower after the merger than the amount you received as a

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limited partner of the Partnership.

You will not benefit from any increase in value of the properties.

The Partnership's properties may increase in value and might be able to be sold for higher prices at a later date. Public Storage will realize the benefit of any increase in value.

You have no dissenters' rights of appraisal.

Under California law, you will not be entitled to dissenters' rights of appraisal in connection with the merger.

Public Storage has conflicts of interest in the merger.

Relationships among the parties create conflicts of interest. Because of the relationships among Public Storage, the Partnership and Hughes, there are significant conflicts of interest in connection with the merger. Public Storage and Hughes are the general partners of the Partnership, and Public Storage owns 63% of the Partnership units. See "Summary - Relationships."

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Insiders have structured the merger. Public Storage initiated and structured the merger. Public Storage and the Partnership did not negotiate the merger at arm's length. Public Storage has an interest in acquiring the Partnership units at the lowest possible price, while you have an interest in selling your units at the highest possible price. Public Storage and the Partnership did not hire independent persons to negotiate the terms of the merger for you. If independent persons had been hired, the terms of the merger might have been more favorable to you.

The merger includes benefits to insiders. The merger involves certain benefits to Public Storage, including the following:

- o Ownership of All Partnership Units. As a result of the merger, Public Storage will own all of the Partnership units without taxable gain to Public Storage.
- o Cost Efficiencies. The merger will eliminate almost all Partnership administrative expenses, much of which has been borne by Public Storage as owner of 63% of the Partnership units.
- o Elimination of Conflicts of Interest. The merger will eliminate the conflicts of interest resulting from the public limited partners' ownership of a minority interest in the Partnership. The principal conflicts involve the competition of the Properties with other mini-warehouses owned by Public Storage.

The Hughes family could control Public Storage.

The Hughes family owns approximately 34% of the outstanding shares of Public Storage common stock (approximately 38% upon conversion of the Public Storage class B common stock). Consequently, the Hughes family could control matters submitted to a vote of Public Storage shareholders, including electing directors, amending Public Storage's organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt.

Provisions in Public Storage's organizational documents may prevent changes in

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control.

Restrictions in Public Storage's organizational documents may further limit changes in control of Public Storage securities. Unless Public Storage's board of directors waives these limitations, no Public Storage shareholder may own more than (A) 2.0% of the outstanding shares of all common stock of Public Storage or (B) 9.9% of the outstanding shares of each class or series of preferred or equity stock of Public Storage. The Public Storage organizational documents in effect provide, however, that the Hughes family may continue to own the shares of Public Storage common stock held at the time of a 1995 reorganization. These limitations are designed, to the extent possible, to avoid a concentration of ownership that might jeopardize the ability of Public Storage to qualify as a REIT. These limitations, however, also make a change of control significantly more difficult (if not impossible) even if it would be favorable to the interests of the public shareholders of Public Storage. These provisions will prevent future takeover attempts not approved by the Public Storage board of directors even if a majority of the public shareholders of Public Storage deem it to be in their best interests because they would receive a premium for their shares over the shares' then market value or for other reasons. See "Description of Public Storage Capital Stock - Ownership Limitations."

The number of shares of Public Storage common stock to be issued in the merger has not been determined.

If you receive Public Storage common stock in the merger, the number of shares will be based on the average market price of Public Storage common stock for the 20 consecutive trading days ending on the fifth trading day prior to the Effective Date. Since the market price of Public Storage common stock fluctuates, the market value of Public Storage common stock that you may receive in the merger may decrease after the date that the number of shares is determined, but before those shares actually are issued. In addition, because of possible increased selling activity following issuance of shares in this merger and other factors, such as changes in interest rates and market conditions, the market value of Public Storage common stock that you may receive in the merger may decrease following the merger.

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Public Storage would incur adverse tax consequences if it fails to qualify as a REIT.

If you receive Public Storage common stock in the merger, you will be subject to the risk that Public Storage may not qualify as a REIT. As a REIT, Public Storage must distribute at least 90% of its REIT taxable income to its shareholders (which include not only holders of Public Storage common stock but also holders of preferred and equity stock). Failure to pay full dividends on the preferred stock could jeopardize Public Storage's qualification as a REIT. See "Federal Income Tax Considerations - General Tax Treatment of Public Storage," and "- Consequences of the PSMI Merger on Public Storage's Qualification as a REIT."

For any taxable year that Public Storage fails to qualify as a REIT and the relief provisions do not apply, Public Storage would be taxed at the regular corporate rates on all of its taxable income, whether or not it makes any distributions to its shareholders. Those taxes would reduce the amount of cash available to Public Storage for distribution to its shareholders or for reinvestment. As a result, failure of Public Storage to qualify during any taxable year as a REIT could have a material adverse effect upon Public Storage and its shareholders. Furthermore, unless certain relief provisions apply, Public Storage would not be eligible to elect REIT status again until the fifth

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taxable year that begins after the first year for which Public Storage fails to qualify.

Public Storage would incur a corporate level tax if it sold certain assets.

Public Storage will generally be subject to a corporate level tax if it sells any of the assets it acquired in a November 1995 reorganization before November 2005.

Public Storage and its shareholders are subject to financing risks.

Debt increases risk of loss. In making real estate investments, Public Storage, unlike the Partnership, borrows money, which increases the risk of loss. At September 30, 2001, Public Storage's debt of \$149 million was approximately 3% of its total assets.

Issuing additional shares reduces the interest of existing shareholders. Issuing additional securities can dilute the interest of Public Storage shareholders in Public Storage, including persons who receive shares in the merger.

Public Storage intends to issue additional securities under a currently effective registration statement. Issuing additional stock will dilute the interest of Public Storage shareholders. See "Description of Public Storage Capital Stock" for a discussion of the terms of the preferred stock, common stock and equity stock.

If Public Storage is liquidated, holders of the preferred stock will be entitled to receive, before any distribution of assets to holders of Public Storage common stock, liquidating distributions (an aggregate of approximately \$1.67 billion with respect to preferred stock outstanding at September 30, 2001), plus any accrued and unpaid dividends. Holders of preferred stock are entitled to receive, when declared by the Public Storage board of directors, cash dividends (an aggregate of approximately \$140 million per year with respect to preferred stock outstanding at September 30, 2001), in preference to holders of Public Storage common stock.

The merger payments are based on an appraisal instead of arm's length negotiation.

The payments you receive in the merger is based in significant part on a third party appraised value of the Properties. However, appraisals are opinions as of the date specified and are subject to certain assumptions and may not represent the true worth or realizable value of these Properties. There can be no assurance that if these Properties were sold, they would be sold at the appraised values; the sales prices might be higher or lower.

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Public Storage is subject to real estate operating risks.

Value of Public Storage's investment may be reduced by general risks of real estate ownership. Like the Partnership, Public Storage is subject to the risks generally incident to the ownership of real estate-related assets, including

- o lack of demand for rental spaces or units in a locale;
- o changes in general economic or local conditions, changes in supply of or demand for similar or competing facilities in an area;

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- o the impact of environmental protection laws;
- o changes in interest rates and availability of permanent mortgage funds which may render the sale or financing of a property difficult or unattractive; and
- o changes in tax, real estate and zoning laws.

There is significant competition among mini-warehouses. Like the Partnership, most of Public Storage's properties are mini-warehouses. Competition in the market areas in which many of their properties are located is significant and has affected the occupancy levels, rental rates and operating expenses of certain of their properties. Any increase in availability of funds for investment in real estate may accelerate competition. Recent increases in development of mini-warehouses are expected to further intensify competition among mini-warehouse operators in certain market areas in which Public Storage operates.

Public Storage may incur significant environmental costs and liabilities. Under various federal, state and local environmental laws, an owner or operator of real estate interests may have to clean up spills or other releases of hazardous or toxic substances on or from a property. Certain environmental laws impose liability whether or not the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. In some cases, liability may not be limited to the value of the property. The presence of such substances, or the failure to properly remediate any resulting contamination, also may adversely affect the owner's or operator's ability to sell, lease or operate its property or to borrow using its property as collateral.

Public Storage has conducted preliminary environmental assessments of most of its properties (and intends to conduct such assessments in connection with property acquisitions) to evaluate the environmental condition of, and potential environmental liabilities associated with, such properties. These assessments generally consist of an investigation of environmental conditions at the subject property (not including soil or groundwater sampling or analysis), as well as a review of available information regarding the site and publicly available data regarding conditions at other sites in the vicinity. In connection with these recent property assessments, Public Storage's operations and recent property acquisitions, Public Storage has become aware that prior operations or activities at certain facilities or from nearby locations have or may have resulted in contamination to the soil and/or groundwater at such facilities. In this regard, certain such facilities are or may be the subject of federal or state environmental investigations or remedial actions. Public Storage has obtained, with respect to recent acquisitions and intends to obtain with respect to pending or future acquisitions, appropriate purchase price adjustments or indemnifications that it believes are sufficient to cover any related potential liabilities. Although there can be no assurance, based on the recent preliminary environmental assessments, Public Storage believes it has funds available to cover any liability from environmental contamination or potential contamination and Public Storage is not aware of any environmental contamination of its facilities material to its overall business, financial condition or results of operation.

Public Storage has no interest in Canadian mini-warehouses.

The Hughes family owns and operates mini-warehouses in Canada. Public

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Storage has a right of first refusal to acquire the stock or assets of the corporation engaged in these operations if the Hughes family or the corporation agree to sell them. However, Public Storage has no interest in the operations of this corporation and no right to acquire this stock or assets unless the Hughes family decides to sell.

The portable self-storage business has incurred operating losses.

Public Storage organized Public Storage Pickup & Delivery in 1996 to operate a portable self-storage business. Public Storage owns all of the economic interest of Pickup & Delivery. Since Pickup & Delivery will operate profitably only if it can succeed in the relatively new field of portable self-storage, there can be no assurance as to its profitability. Pickup & Delivery incurred operating losses of \$7,396,000 in 1999, \$5,135,000 in 2000 and \$1,110,000 for the first nine months of 2001. See "Federal Income Tax Considerations - General Tax Treatment of Public Storage" concerning the treatment of income from and investment in Pickup & Delivery for purposes of the REIT income and asset tests.

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BENEFITS TO INSIDERS

The merger involves certain benefits to Public Storage, including the following:

- o Ownership of All Partnership Units. As a result of the merger, Public Storage will own all of the Partnership units without taxable gain to Public Storage.
- o Cost Efficiencies. The merger will eliminate almost all Partnership administrative expenses, much of which has been borne by Public Storage as owner of 63% of the Partnership units.
- o Elimination of Conflicts of Interest. The merger will eliminate the conflicts of interest resulting from the public limited partners' ownership of a minority interest in the Partnership. The principal conflicts involve the competition of the Properties with other mini-warehouses owned by Public Storage.

ABOUT THIS INFORMATION STATEMENT AND PROSPECTUS

This statement is part of a registration statement that Public Storage filed with the Securities and Exchange Commission (the "Commission") relating to the registration of up to 1,500,000 shares of Public Storage common stock being issued in connection with the merger. This statement provides you with a general description of the securities Public Storage will offer. You should read this statement together with the additional information described under the heading "Where You Can Find More Information."

WHERE YOU CAN FIND MORE INFORMATION

Public Storage and the Partnership are subject to the reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), and each files reports, proxy statements and other information with the Commission. You may read and copy any materials Public Storage and the Partnership files with the Commission at the Commission's Public Reference Room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission also maintains a computer site on

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the World Wide Web (<http://w.ww.sec.gov>) that contains reports, proxies, information statements, and other information regarding issuers that file electronically. Public Storage's outstanding common stock is listed on the New York Stock Exchange ("NYSE") and the Pacific Exchange ("PCX") under the symbol PSA, and all reports, proxy statements and other information filed by Public Storage with the NYSE may be inspected at the NYSE's offices at 20 Broad Street, New York, New York 10005 and all those reports and other information filed by Public Storage with the PCX may be inspected at the PCX's offices at 301 Pine Street, San Francisco, California 94104.

Public Storage has filed with the Commission a registration statement on Form S-4 (together with all amendments and exhibits, the "Registration Statement") under the Securities Act, with respect to the shares of Public Storage common stock being offered in the merger. This statement, which constitutes part of the Registration Statement, does not contain all of the information set forth in the Registration Statement. Certain parts of the Registration Statement are omitted from this statement in accordance with the rules and regulations of the Commission. For further information, please refer to the Registration Statement. Statements made in this statement concerning the contents of any documents referred to in this document are not necessarily complete, and in each case are qualified in all respects by reference to the copy of such document filed with the Commission.

The Commission allows Public Storage and the Partnership to "incorporate by reference" the information Public Storage and the Partnership file with the Commission, which means that Public Storage and the Partnership can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this statement, and information that Public Storage files later with the Commission will automatically update and supersede this information.

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Public Storage incorporates by reference the documents listed below:

- o Public Storage's Annual Report on Form 10-K for the year ended December 31, 2000;
- o Public Storage's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2001, June 30, 2001; and September 30, 2001;
- o Public Storage's Current Reports on Form 8-K dated January 16, 2001, April 5, 2001, September 4, 2001, October 16, 2001, January 15, 2002, and February 13, 2002; and
- o The description of Public Storage's common stock contained in Public Storage's Registration Statement on Form 8-A, effective June 30, 1981, as supplemented by the description of Public Storage's common stock contained in this statement.

The Commission has assigned file number 1-8389 to the reports and other information that Public Storage files with the Commission.

The Partnership incorporates by reference the documents listed below:

- o The Partnership's Annual Report on Form 10-K for the year ended December 31, 2000;
- o The Partnership's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2001, June 30, 2001, September 30, 2001; and

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- o The Partnership's Current Report on Form 8-K dated February 25, 2002.

The Commission has assigned file number 0-14476 to the reports and other information that the Partnership files with the Commission.

This statement also incorporates by reference any future filings made by Public Storage with the Commission under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act. You should be aware that any statement contained in this statement or in a document incorporated by reference may be modified or superseded by a document filed with the Commission at a later date. Any statement which has been modified or superseded shall not be considered to constitute a part of this statement.

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

Investor Services Department
Public Storage, Inc.
701 Western Avenue
Glendale, California 91201-2397
Telephone: (800) 421-2856
(818) 244-8080
Facsimile: (818) 241-0627

In order to ensure timely delivery of any documents, you must request the information by _____, 2002.

You may also find more information concerning Public Storage at the following Internet address: <http://www.publicstorage.com>.

You should rely only on the information included in this statement or incorporated in this statement. Public Storage has not authorized anyone else to provide you with different information. Public Storage is not making an offer of its shares of common stock in any state where the offer is not permitted. You should not assume that the information in this statement is accurate as of any date other than the date on the front of those documents.

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CAUTIONARY STATEMENT

Statements contained in this statement that are not based on historical fact are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "continue" or similar terms, variations of those terms or the negative of those terms. Cautionary statements set forth in "Risk Factors" and elsewhere in this statement identify important factors that could cause actual results to differ materially from those in the forward-looking statements.

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THE MERGER

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General

The acquisition of the Partnership units not currently owned by Public Storage will be accomplished in the merger as follows:

- o A wholly-owned, second tier subsidiary of Public Storage will be merged into the Partnership.
- o Each Partnership unit (other than units owned by Public Storage) will be converted into the right to receive a value of \$596 in Public Storage common stock or, at the election of a limited partner, in cash. To be effective a cash election must be made by _____, 2002, in accordance with the accompanying cash election form.
- o Distributions will be made to holders of Partnership units to cause the estimated net asset value per Partnership unit as of the Effective Date to be substantially equivalent to \$596. In computing the estimated net asset value per unit as of the Effective Date, the PSBP partnership interests will be valued at the average of the per share closing price on the AMEX of the shares of PS Business Parks, Inc. during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Date.
- o For purposes of the merger, the market value of the Public Storage common stock will be the average of the per share closing prices on the NYSE of the Public Storage common stock during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Date.
- o Following the merger, Public Storage (through a wholly owned entity) will own all Partnership units, and the Partnership will remain in existence.

It is estimated that the aggregate consideration (cash or Public Storage common stock or a combination of the two) to be paid by Public Storage to acquire in the merger the Partnership units owned by the public limited partners (including costs) will be approximately \$33.1 million. See "- Determination of Amounts to be Received by Limited Partners in the Merger" and "- Costs of the Merger."

Background and Reasons for the Merger

The merger has not been negotiated at arm's length. The merger has been structured by Public Storage, which controls the Partnership and has significant conflicts of interest in connection with, and will benefit from, the merger. Based in significant part on a third party appraisal of the Properties and on the opinion of a financial advisor, in which they concur, Public Storage and Hughes, the general partners of the Partnership, believe that the merger is fair to the public limited partners.

The Partnership was organized in 1986 and raised \$74 million in gross proceeds in a public offering. All of the proceeds from the offering have been invested to acquire properties, all but one of which were acquired jointly with Public Storage. A predecessor of Public Storage sponsored the Partnership.

As indicated in the original prospectus, the Partnership originally anticipated selling the Properties and liquidating from five to eight years after acquisition, i.e., between 1991 and 1994. By 1990, significant changes had taken place in the financial and real estate markets affecting the timing of any proposed sale of the Properties, including (1) the increased construction of

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mini-warehouses from 1984 to 1988, which had increased competition, (2) the general deterioration of the real estate market (resulting from a variety of factors, including the 1986 changes in tax laws), which had significantly affected property values and decreased real estate sales activities, (3) the reduced sources of real estate financing (resulting from a variety of factors, including adverse developments in the savings and loan industry) and (4) the glut in the real estate market caused by overbuilding and sales of properties

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acquired by financial institutions. Accordingly, the Properties were not marketed during the originally anticipated liquidation period.

In view of the events affecting the timing of the sale of the Properties, Public Storage concluded that the limited partners of the Partnership, as well as the limited partners of other partnerships sponsored by Public Storage, should be provided with a more efficient method of realizing the value of their investment than the secondary market for limited partnership interests. Accordingly, Public Storage purchased Partnership units from those limited partners who desired to sell, including through tender offers in 1994 and 1997. As a result of these purchases, public limited partners now own only 37% of the units with the balance owned by Public Storage. Since the Partnership is beyond its original anticipated term and the public limited partners own only a minority of the units, the general partners have decided to eliminate through the merger the ongoing costs of a public structure and the conflicts of interest resulting from the public limited partners' ownership of a minority interest in the Partnership. The principal conflicts involve the competition of the Properties with other mini-warehouses owned by Public Storage.

Public Storage, which was organized in 1980, has from time to time taken actions to increase its asset and capital base and increase diversification, such as by increasing its interest in affiliated entities, like the Partnership. Public Storage's interest in the Partnership include (1) Public Storage and the Partnership jointly own 32 of the 33 Properties and the interest in PSBP, (2) Public Storage (through a wholly-owned entity) and Hughes are general partners of the Partnership, (3) Public Storage (through a wholly owned entity) owns 63% of the Partnership units and (4) the Properties are managed by Public Storage. As a result of the merger, Public Storage will own all of the Partnership units and almost all Partnership administrative expenses will be eliminated.

Fairness Analysis

The merger has not been negotiated at arm's length. The merger has been structured by Public Storage, which controls the Partnership and has significant conflicts of interest in connection with, and will benefit from, the merger. However, based in significant part on a third party appraisal of the Properties and on the opinion of Stanger, in which they concur, the general partners believe that the merger is fair to public limited partners.

The general partners based their conclusions on the following factors: (1) the consideration to be received by the limited partners in the merger is based on the appraised value of the Properties as determined by an independent appraisal firm; (2) the Partnership has received a fairness opinion from Stanger relating to the consideration to be received by public limited partners; (3) although the merger has been structured by Public Storage, the merger provides public limited partners with a choice of converting their investment into an investment in Public Storage or receiving cash for their investment; and (4) based on certain significant assumptions, qualifications and limitations, the consideration to be received by public limited partners compares favorably with

other alternatives.

The general partners believe that the engagement of TNG and Stanger to provide the portfolio appraisal and the fairness opinion, respectively, assisted the general partners in the fulfillment of their duties to public limited partners, notwithstanding that these parties received fees in connection with their engagements by the Partnership and in connection with other engagements and may receive fees in the future. See "- Real Estate Portfolio Appraisal by TNG" and "- Fairness Opinion from Stanger."

Alternatives to the Merger

The general partners considered liquidation and continued ownership by the limited and general partners as alternatives to the merger. In order to determine whether the merger or one of its alternatives would be more advantageous to public limited partners, the general partners compared the potential benefits and detriments of the merger with the potential benefits and detriments of the alternatives.

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Liquidation

Benefits of Liquidation. An alternative to the merger would be to liquidate the Partnership's assets, distribute the net liquidation proceeds to the partners and thereafter dissolve the Partnership. Through such liquidation, the Partnership would provide for a final disposition of its partners' interests in the Partnership. Limited partners would receive cash liquidation proceeds (as they will if they make cash elections). If the Partnership liquidated its assets through asset sales to unaffiliated third parties, limited partners would not need to rely upon a real estate portfolio appraisal of the fair market value of the Properties. The Partnership would be valued through arm's length negotiations between the Partnership and prospective purchasers.

Disadvantages of Liquidation. Over the last several years, the performance of the Properties has improved as described under "- Continued Ownership of the Partnership - Benefits of Continued Ownership." The general partners believe that the improvement may continue. The merger provides limited partners with the opportunity either to convert their investment in the Partnership into an investment in Public Storage, which like the Partnership primarily owns mini-warehouses, or to receive cash based on the appraised value of the Properties. In contrast to the merger, the Partnership would also be expected to incur certain costs in a liquidation.

Limited partners should recognize that appraisals are opinions as of the date specified and are subject to certain assumptions and may not represent the true worth or realizable value of the Properties. There can be no assurance that if the Properties were sold, they would be sold at the appraised value; the sales price might be higher or lower than the appraised value.

Continued Ownership of the Partnership

Benefits of Continued Ownership. Another alternative to the merger would be to continue the Partnership in accordance with its existing business plan, with the Partnership continuing to be owned by the limited and general partners. The Partnership is operating profitably.

There has been improvement in the mini-warehouse markets. As the pace of new mini-warehouse development has slowed somewhat from the peak levels

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of 1984-88, there has been a corresponding improvement in the financial performance of existing properties. This improvement is evidenced by the performance of the Properties. For example, monthly realized rents per occupied square foot of the Properties increased from 1998 to 2000 from \$8.64 to \$9.16 with average occupancies of 92% in 1998 and 91% in 2000. Despite significant recent increases in the development of new mini-warehouses, the general partners believe that the financial performance of the Properties may continue to improve, although not necessarily at the rate of improvement experienced in prior years. Should such improvements continue, the value of the Properties could be expected to increase. See "Description of Partnership Properties."

A number of advantages could be expected to arise from the continued ownership of the Partnership by the limited and general partners. Limited partners would continue to receive regular quarterly distributions of net cash flow arising from operations and the sale or refinancing of the Partnership's assets. Given the currently improving market conditions for mini-warehouses, the general partners believe that the level of these distributions to limited partners may increase. Continued ownership of the Partnership by the general and limited partners affords limited partners with the opportunity to participate in any future appreciation in the Partnership's assets. In addition, this decision, if elected, would mean that there would be no change in the nature of the investment of limited partners. This option avoids whatever disadvantages might be deemed inherent in the merger. See "Risk Factors" for discussion of various risks associated with the merger.

Disadvantages of Continued Ownership. Not only is the Partnership well beyond its anticipated term, but continued ownership of the Partnership by the limited and general partners fails to secure the benefits that the limited and general partners expect to result from the merger. The benefits to limited partners are highlighted under "- Potential Benefits of the Merger," and the benefits to the general partners are highlighted under "Benefits to Insiders." The merger affords limited partners increased liquidity.

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In addition, because the Partnership is not authorized to issue new securities or to reinvest sale or financing proceeds, the Partnership is less able to take advantage of new real estate investment opportunities. In contrast, Public Storage has a substantially larger, more diversified, investment portfolio that reduces the risks associated with any particular assets or group of assets and increases Public Storage's ability to access capital markets for new capital investments.

Determination of Amounts to be Received by Limited Partners in the Merger

In connection with the merger, limited partners will receive a value of \$596 per Partnership unit in cash or Public Storage common stock. The general partners have determined this amount based on the estimated net asset value per unit computed as follows:

| | |
|---|--------------|
| Estimated value of Partnership's interest in the Properties (1) | \$63,419,000 |
| Plus: | |
| Market value of Partnership's interest in PSBP (2) | 24,271,000 |
| Partnership's interest in other tangible net assets and liabilities (3) | 1,343,000 |
| | ----- |
| Net proceeds available for distribution | 89,033,000 |
| Distributions to general partners (4) | (890,000) |

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| | |
|---|--------------|
| Distributions to limited partners | \$88,143,000 |
| Amount per Partnership unit (5) (6) (7) (8) | \$596 |

-
- (1) Reflects appraised value of the Properties determined by TNG as of December 31, 2001. Assumes proceeds from a deemed sale of the Properties at the appraised value and that the proceeds from the sale of the Properties are allocated between the Partnership and Public Storage based on their joint venture agreement. See "Description of Partnership's Properties" and "The Merger - Real Estate Portfolio Appraisal by TNG".
 - (2) Reflects closing price of shares of PS Business Parks, Inc. on the AMEX as of December 31, 2001 (the PSBP partnership interests are exchangeable for those shares on a one unit for one share basis). Assumes proceeds from a deemed sale of the units at that price are allocated between the Partnership and Public Storage based on the joint venture agreement. See note (7) below.
 - (3) Includes the Partnership's interest in cash and other non-real estate assets offset by the Partnership's interest in prepaid rents, security deposits, accounts payable and accrued expenses as of September 30, 2001.
 - (4) Represents distributions attributable to general partners' 1% capital interest in the Partnership. In accordance with the Partnership Agreement, no subordinated incentive distributions are payable at this time.
 - (5) Based on 148,000 Partnership units.
 - (6) Upon completion of the merger, each Partnership unit would be converted into Public Storage common stock with a value of \$596 or, at the election of a limited partner, in cash. The number of shares of Public Storage common stock to be issued in the merger will be determined by dividing \$596 by the average of the closing prices of Public Storage common stock during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Date. The market price of Public Storage common stock may fluctuate after the date that the number of shares to be issued to limited partners in the merger is determined and before those shares actually are issued.

- (7) Distributions will be made to limited partners to cause the estimated net asset value per Partnership unit as of the Effective Date to be substantially equivalent to \$596 per unit. In computing the estimated net asset value per unit as of the Effective Date, the PSBP partnership interests will be valued at the average of the per share closing price on the AMEX of the shares of PS Business Parks, Inc. during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Date.

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- (8) Original purchase price of a Partnership unit was \$500.

Potential Benefits of the Merger

The general partners believe that the following are the principal potential benefits to limited partners:

(1) Limited partners who elect to receive cash will have fully liquidated their investment at approximately 119% of their original investment (excluding prior distributions received) and at an amount substantially higher than the prices in the limited secondary transactions. Also, they will have simplified their tax reporting for years after 2002.

(2) For limited partners who receive Public Storage common stock, the principal potential benefits are:

- o Ownership Interest in a Diversified Real Estate Company. Because the Partnership is not authorized to issue new securities or to reinvest sale or financing proceeds, the Partnership is less able to take advantage of new real estate investment opportunities. In contrast, Public Storage has a substantially larger, more diversified, investment portfolio that reduces the risks associated with any particular assets or group of assets and increases Public Storage's ability to access capital markets for new capital investments.
- o Increased Liquidity. There is no active market for the Partnership units. In comparison, Public Storage has approximately 113 million shares of Public Storage common stock listed on the NYSE with an average daily trading volume during the 12 months ended September 30, 2001 of approximately 174,000 shares. Given Public Storage's market capitalization and trading volume, limited partners who receive Public Storage common stock are likely to enjoy a more active trading market and increased liquidity for the Public Storage securities they receive.
- o Simplified Tax Reporting. The merger also will simplify tax reporting for years after 2002 for limited partners who receive Public Storage common stock. Public Storage shareholders will receive Form 1099-DIV to report their dividends from Public Storage. Form 1099-DIV is substantially easier to understand than the Schedule K-1 prepared for the reporting of the financial results of the Partnership.

Detriments of the Merger

For a discussion of certain risks and detriments of the merger, see "Risk Factors" beginning on page 12.

Fairness Analysis

Conclusions. Based upon an analysis of the merger, the general partners have concluded that (1) the terms of the merger are fair to public limited partners and (2) after comparing the potential benefits and detriments of the merger with alternatives, the merger is more advantageous to public limited partners than such alternatives.

Although the general partners reasonably believe the terms of the

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merger are fair to public limited partners, the general partners have significant conflicts of interest with respect to the merger. The merger has been initiated and structured by Public Storage, one of the general partners. See "Summary - Relationships" and "Risk Factors - Conflicts of Interest."

Material Factors Underlying Conclusions of General Partners. The following is a discussion of the material factors underlying the conclusions of the general partners. The general partners have not quantified the relative importance of these factors.

1. Consideration Offered. The general partners believe that (A) basing the consideration to be paid to public limited partners in the merger on the value of the Partnership's assets is reasonable and consistent with the partnership agreement, (B) the Partnership's net asset value represents a fair estimate of the value of its assets, net of liabilities, and constitutes a reasonable basis for determining the consideration to be received by public limited partners, (C) the allocation of the appraised value of the Properties between the Partnership and Public Storage is fair because it reflects the amount each would receive upon the Partnership's liquidation under the joint venture agreement and (D) the allocation of the Partnership's net asset value between the limited and general partners is fair because it reflects the amount they would receive upon the Partnership's liquidation under the partnership agreement. There was no negotiation regarding the basis for determining the consideration to be paid to public limited partners in the merger. See "- Background and Reasons for the Merger."

2. Choice as to Form of Consideration. The merger provides public limited partners with the choice of either (A) converting their investment into an investment in Public Storage, which generally owns the same type of properties as the Partnership and which has acquired, and is expected to continue to acquire, additional properties or (B) receiving in cash the amounts they would receive if the Properties were sold at their appraised values and the Partnership's interest in PSBP were sold at its market value and the Partnership were liquidated (without any reduction for commissions and other sales expenses).

3. Independent Portfolio Appraisal and Fairness Opinion. The conclusions of the general partners are based in significant part upon the portfolio appraisal prepared by TNG and Stanger's fairness opinion. The general partners attributed significant weight to these items, which they believe support their position, and do not know of any factors that are reasonably likely to detract from the conclusions in TNG's portfolio appraisal and Stanger's fairness opinion. The general partners believe that the engagement of TNG and Stanger to provide the portfolio appraisal and the fairness opinion, respectively, assisted the general partners in the fulfillment of their duties to public limited partners, notwithstanding that these parties received fees in connection with their engagements by the Partnership and in connection with other engagements by Public Storage and its affiliates and may receive fees in the future. See "- Real Estate Portfolio Appraisal by TNG" and "- Fairness Opinion from Stanger."

4. Comparison of Payments to be Received in the Merger to Other Alternatives. The payments to be received in the merger of \$596 per Partnership unit generally compares favorably with (A) the prices at which limited secondary sales of units have been effectuated, (B) a range of estimated going-concern value per unit (\$540 to \$562), (C) an estimated liquidation value per unit (\$577) and (D) the book value per unit as of September 30, 2001 (\$236). The general partners recognize that this comparison is subject to significant assumptions, qualifications and limitations. See "- Comparison of Consideration to be Received in the Merger to Other Alternatives."

5. Possible Lower Level of Distributions to Limited Partners

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After the Merger. The level of distributions to limited partners who receive Public Storage common stock in the merger may be lower after the merger than before.

6. Conflicts of Interest. The merger has been initiated and structured by Public Storage, one of the general partners. Independent representatives were not engaged to negotiate these arrangements on behalf of public limited partners, and the terms of the merger are not the result of arm's length negotiations.

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The general partners do not believe that the absence of independent representatives to negotiate the merger undermines the fairness of the merger. Based upon the use of an independent appraisal firm and the Stanger fairness opinion, the general partners considered that the engagement of such independent representatives was not necessary or cost effective.

Comparison of Consideration to be Received in the Merger to Other Alternatives

General. The general partners compared the consideration to be received in the merger, i.e., a value of \$596 per Partnership unit to: (1) the prices at which limited secondary sales have been effectuated; (2) estimates of the value of the Partnership on a liquidation basis assuming that its assets were sold at their appraised fair market value and the net proceeds distributed between the joint venture partners in accordance with the joint venture agreement and between the limited and general partners in accordance with the partnership agreement; and (3) estimates of the value of the Partnership on a going-concern basis assuming that it were to continue as a stand-alone entity and its assets sold at the end of a five-year holding period. Due to the uncertainty in establishing these values, the Partnership established a range of estimated values for certain of the alternatives, representing a high and low estimated value for the potential consideration. Since the value of the consideration for alternatives to the merger is dependent upon varying market conditions, no assurance can be given that the range of estimated values indicated establishes the highest or lowest possible values. However, the general partners believe that analyzing the alternatives in terms of ranges of estimated value, based on currently available market data and, where appropriate, reasonable assumptions made in good faith, establishes a reasonable framework for comparing alternatives.

The results of these comparative analyses are summarized in the following tables. Limited partners should bear in mind that the estimated values assigned to the alternate forms of consideration are based on a variety of assumptions that have been made by the Partnership. These assumptions relate, among other things, to: projections as to the future income, expenses, cash flow and other significant financial matters of the Partnership; the capitalization rates that will be used by prospective buyers when the Partnership's assets are liquidated; and, appropriate discount rates to apply to expected cash flows in computing the present value of the cash flows that may be received with respect to Partnership units. In addition, these estimates are based upon certain information available to the Partnership at the time the estimates were computed, and no assurance can be given that the same conditions analyzed by them in arriving at the estimates of value would exist at the time of the merger. The assumptions used have been determined by the Partnership in good faith, and, where appropriate, are based upon current and historical information regarding the Partnership and current real estate markets, and have been highlighted below to the extent critical to the conclusions of the general partners.

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No assurance can be given that such consideration would be realized through any of the designated alternatives, and limited partners should carefully consider the following discussions to understand the assumptions, qualifications and limitations inherent in the presented valuations. The estimated values presented in the following table are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These estimated values are based upon certain assumptions that relate, among other things, to (1) the price of Public Storage common stock and common stock of PS Business Parks, Inc. as of the date of the merger being the same as during the 20 trading days ending on the fifth trading day prior to the Effective Date, (2) projections as to the future revenues, expenses, cash flow and other significant financial matters of the Partnership, (3) the capitalization rates that will be used by prospective buyers when the Partnership's assets are liquidated, (4) selling costs, (5) appropriate discount rates to apply to expected cash flows in computing the present value of the cash flows and (6) the manner of sale of the Properties. Actual results may vary from those set forth below based on numerous factors, including interest rate fluctuations, tax law changes, supply and demand for mini-warehouses, the manner in which the properties are sold and changes in availability of capital to finance acquisitions of mini-warehouses.

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Partnership Comparison of Alternatives

| Payments in Merger per Partnership unit | Limited Secondary Market Prices of Partnership Units(2) | Estimated Going Concern Value per Partnership Unit(3) | Estimated Par App | |
|---|---|---|-------------------|-------|
| \$596(1) | \$297 | \$451 | \$540 | \$562 |

- (1) Based on the Partnership's net asset value consisting of the independently appraised market value of the Properties as of December 31, 2001, the closing price of PS Business Parks, Inc. on the AMEX on December 31, 2001, the estimated book value of its other net assets as of September 30, 2001. The market price of Public Storage common stock may fluctuate following establishment of the number of shares to be issued to limited partners in the merger and prior to issuance and could decrease as a result of increased selling activity following issuance of the shares in the merger and other factors. See "- Determination of Amounts to be Received by Limited Partners in the Merger."
- (2) There is no active market for the Partnership units. Based on the information available to the Partnership, the prices at which limited secondary sales have been effectuated from January 1, 2000 through December 31, 2001. Included in this price range are sales to Public Storage. See "Distributions and Market Prices of Partnership Units."
- (3) Reflects a range of values based upon a number of assumptions regarding the future net operating income and distributions of the Partnership and the date of its liquidation. See "- Going-Concern

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Value."

- (4) Based upon TNG's real estate appraisal for the Properties, less estimated expenses of liquidation. See "- Liquidation Values."

Limited Secondary Market Prices of Units. There is no active market for the Partnership units. Based on the information available to the Partnership, the prices at which limited secondary sales have been effectuated ranged from \$297 to \$451 per unit from January 1, 2000 through December 31, 2001. Included in this price range are sales to Public Storage. See "Distributions and Market Prices of Partnership Units."

Going-Concern Value. The Partnership has estimated the going-concern value of the Partnership by analyzing projected cash flows and distributions assuming that the Partnership was operated as an independent stand-alone entity and its assets sold in a liquidation of the Partnership after a five-year holding period. The Partnership assumed sale of the Properties at the terminal value projected by capitalizing the net operating income in year six at a capitalization rate equal to the midpoint of the effective capitalization rate in the appraisal and the capitalization rate used by the appraiser in the residual value component of the discounted cash flow analysis (an average capitalization rate of 9.6% for the Properties). The Partnership assumed that the Partnership's interest in PSBP was sold at an FFO multiple of 10 less \$0.06 per PSBP unit in brokerage commissions. Real estate selling costs were assumed to be incurred at the same percentage of sale proceeds (4.4%) as incurred in the liquidation alternative. Distribution and sale proceeds per Partnership unit were discounted in the projections at rates ranging from 12% to 13%.

Both scenarios of the going-concern analysis assume that all of the Properties are sold concurrently at the expiration of the holding period. Should the assets be liquidated over time, even at prices equal to those projected, distributions to limited partners out of the Partnership's cash flow from operations might be reduced because relatively fixed costs, such as general and administrative expenses, are not proportionately reduced with the liquidation of assets. However, for simplification purposes, the sales are assumed to occur concurrently.

The estimated value of the Partnership on a going-concern basis is not intended to reflect the distributions payable to limited partners if its assets were to be sold at their current fair market value.

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Liquidation Values. Since one of the alternatives available to the general partners is to proceed with a liquidation of the Partnership, and the corresponding distribution of the net liquidation proceeds between the joint venture partners and, within the Partnership, to the limited partners and the general partners, the Partnership has estimated the liquidation value of the Partnership assuming that the Properties are sold at their appraised value based upon the TNG real estate portfolio appraisal. This alternative assumes that the Partnership's interest in PSBP is sold at the December 31, 2001 trading price (less a commission of \$.06 per share), the Partnership incurs real estate selling costs at the time of liquidation (state and local transfer taxes, real estate commissions of 3% of sales proceeds and legal and other closing costs) of approximately \$4.8 million, and the remaining net liquidation proceeds are distributed between the joint venture partners in accordance with the joint venture agreement and between the limited and general partners in accordance with the partnership agreement.

The liquidation analysis assumes that all of the Properties are sold

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concurrently at their appraised value. Should the assets be liquidated over time, even at prices equal to those projected, distributions to limited partners from cash flow from operations might be reduced because the Partnership's relatively fixed costs, such as general and administrative expenses, are not proportionately reduced with the liquidation of assets. However, for simplification purposes, the sales of the Properties are assumed to occur concurrently.

Applying these procedures, the Partnership arrived at the liquidation value set forth in the table. The real estate portfolio appraisal sets forth, subject to the specified assumptions, limitations and qualifications, TNG's professional opinion as to the market value of the Properties as of December 31, 2001. While the portfolio appraisal is not necessarily indicative of the price at which the assets would sell, market value generally seeks to estimate the price at which the Properties would sell if disposed of in an arm's length transaction between a willing buyer and a willing seller, each having access to relevant information regarding the historical revenues and expenses. The real estate portfolio appraisal assumes that these Properties are disposed of in an orderly manner and are not sold in forced or distressed sales where sellers might be expected to dispose of their interests at substantial discounts to their actual fair market value. See "- Real Estate Portfolio Appraisal by TNG."

Distribution Comparison. The general partners have considered the potential impact of the merger upon distributions that would be made to limited partners who exchange their Partnership units for Public Storage common stock. Based on a market price of Public Storage common stock of \$37.25, the current regular quarterly distribution rate for Public Storage (\$.45 per share) and the regular and special distributions for the Partnership during 2001 (\$32.18 per unit), limited partners would receive approximately \$3.38 (10.5%) less in annual distributions per Partnership unit after the merger from Public Storage than before the merger from the Partnership and approximately \$0.75 less per unit in annual distributions for each \$1.00 (2.7%) increase in the market price of Public Storage common stock above \$37.25.

In evaluating this estimate, limited partners should bear in mind that this comparison does not reflect the tax that a limited partner will have to pay in connection with the merger. The merger will be a taxable event for the public limited partners resulting in the recognition of gain to most taxable public limited partners who receive either cash or Public Storage common stock. In evaluating this estimate, limited partners should also bear in mind that a number of factors affect the level of distributions. These factors include the distributable income generated by operations, the principal and interest payments on debt, if any, capital expenditure levels (in excess of normal expenditures for ongoing maintenance and repairs) and the corporate policy with respect to cash distributions. A comparison of the current distribution levels of Public Storage with those of the Partnership does not show how the merger might affect a limited partner's distribution level over a number of years.

Real Estate Portfolio Appraisal by TNG

TNG was engaged by the Partnership to appraise the Properties and has delivered a written report of its analysis, based upon the review, analysis, scope and limitations described therein, as to the market value of the Properties as of December 31, 2001. The appraisal was limited in that TNG did not inspect all of the Properties and its conclusion is primarily based on the Income Capitalization Approach. The Partnership selected TNG to provide the appraisal because of its experience and reputation in appraising mini-warehouses, including its appraisal of other properties managed by Public

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Storage. The consideration to be paid by Public Storage to the limited partners in the merger is based on the appraisal. The appraisal, which contains a description of the assumptions and qualifications made, matters considered and limitations on the review and analysis, is set forth as Appendix B and should be read in its entirety. Certain of the material assumptions, qualifications and limitations to the appraisal are described below.

Experience of TNG. TNG was formed by Lawrence R. Nicholson, CRE, MAI to succeed to the business of Nicholson-Douglas Realty Consultants, which was founded by Mr. Nicholson in 1993. Mr. Nicholson has specialized in the appraisal of mini-warehouses and other commercial properties since 1981. TNG has conducted real estate appraisals on a variety of property types and uses throughout the United States for owners, banks and thrift organizations, insurance companies and other financial institutions. During 1999, 2000 and 2001 TNG appraised over 400 properties.

Summary of Methodology. At the request of the Partnership, TNG evaluated the Properties. In valuing the Properties, TNG considered the applicability of all three commonly recognized approaches to value: the cost approach, the income capitalization approach and the sales comparison approach. The type and age of a property, market conditions and the quantity and quality of data affect the applicability of each approach in a specific appraisal situation. TNG did not consider the cost approach to be applicable to the Properties.

The income capitalization approach estimates a property's capacity to produce income through an analysis of the rental market, operating expenses and net operating income. Net operating income may then be processed into a value estimate through either (or a combination) of two methods: direct capitalization or yield capitalization, i.e., a discounted cash flow analysis.

The sales comparison approach is based upon the principle of substitution, i.e., that an informed purchaser would pay no more for a property than the cost of acquiring an existing property with the same utility. The sales comparison approach establishes what typical investors in the marketplace are willing to pay for the subject properties based on amounts paid for similar type properties.

The cost approach is based on the estimated market value of the site as if vacant plus the depreciated replacement cost of the existing improvements. The cost approach was not considered appropriate in the case of the Properties since (a) today's investors generally do not rely upon the cost approach in making investment decisions for older properties and (b) the necessity of estimating total accrued depreciation in buildings of the type and age of the Properties diminishes the validity of this approach.

While the appraisal was prepared for all of the Properties as a whole, TNG analyzed the individual Properties by (a) reviewing each Property's previous three years' operating statements, (b) reviewing information submitted to TNG by on-site managers which included competitive rental surveys, subject facility descriptions, area trends and other factors and (c) developing information from a variety of sources about market conditions for each individual property that included population, employment and housing trends within the market. TNG verified the competitive property rental rates via telephone. TNG also verified the market conditions and Properties' physical condition (including necessary reserves for deferred maintenance) by visiting and inspecting a representative sample of the Properties and discussing maintenance requirements with property management.

TNG also reviewed evaluations for each property and interviewed management personnel responsible for the Properties to ascertain competitive

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conditions, area economic trends affecting the properties, historical operating revenues and expenses and items of deferred maintenance.

TNG then estimated the value of each of the Properties relying heavily upon the income approach. To define the occupancy and rental rates and expense escalators to be used in developing cash flow projections, TNG reviewed the acquisition criteria and projection parameters in use in the marketplace by major mini-warehouse investors, owners and operators, appraisers and financing sources. In addition, TNG reviewed other published information concerning acquisition criteria in use by property investors. Further, TNG gathered and reviewed sales of mini-warehouses located nationwide within the past 24 months

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in order to derive certain valuation indicators. Sources for data concerning such transactions included local appraisers, property owners, real estate brokers and others. TNG also reviewed information compiled by management identifying sales and acquisitions of mini-warehouses.

In applying a discounted cash flow analysis, projections of cash flow from each property (assuming no indebtedness) were developed for a 10-year period ending in the year 2011 with a residual value computed at the end of year 10. The first year's scheduled gross income was estimated taking into consideration each property's current rent structure and the rental rates of competitive facilities. Also included in the income estimate were trends in ancillary income from late fees and rental concessions. TNG then made an analysis of each subject's occupancy history and took into account local market conditions to estimate a stabilized occupancy level for each of the Properties.

Estimated expenses were based upon each of the Properties' actual operating history. The projected expenses were tested for reasonableness based upon a comparison of the operating expense ratios to market norms. Expenses were deducted from effective gross income to derive a net operating income for each property. Consideration was given, and adjustments made, to reflect replacement reserves. Income and expense growth rates were based on projection parameters currently being used by property investors as well as upon local, regional and historical trends.

TNG used annual revenue growth rates from 1.5% to 5.0% for the initial two years of its cash flow projection and a 3% annual growth rate thereafter. Expenses for the Properties were increased between 2% and 3% per annum. TNG then used terminal capitalization rates of 9.75% to 10.25% to capitalize each of the Properties' 11th year net income into a residual value at the end of a 10-year holding period, and assumed a normal cost of disposing of the Properties. The 10 yearly cash flows were then discounted to present worth using discount rates ranging from 12.25% to 12.50%. In addition, TNG valued each of the Properties using the direct capitalization method by applying capitalization rates ranging from 9.5% to 10.0% to projected net operating income for the next 12 months.

The indicated value for the Properties based upon the discounted cash flow analysis is approximately \$110,100,000 and based upon the direct capitalization method is approximately \$110,200,000. TNG then deducted from the value of each property the present value of the costs associated with items of deferred maintenance.

The indicated value for the Properties after the above adjustment based upon the discounted cash flow analysis is \$108,400,000 and based upon the direct capitalization technique is \$108,500,000.

In applying the sales comparison approach to the Properties, TNG

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analyzed approximately 72 mini-warehouse properties that were sold during 2000 and 2001. Using a regression analysis, a strong correlation was derived between the comparable property's net income and its sales price per square foot.

In addition, TNG reviewed capitalization rates and purchase prices paid in recent transactions of properties similar to the Properties involving Public Storage and others and has concluded that the Properties are reasonably and appropriately valued relative to these other portfolio transactions.

Conclusions as to Value. TNG reconciled the values indicated from the direct sales comparison and income capitalization approaches to arrive at a final valuation conclusion. TNG gave primary emphasis to the income capitalization approach, an emphasis deemed appropriate based on acquisition criteria currently employed in the mini-warehouse market.

Based on the valuation methodology described above, TNG assigned a market value to the Properties as of December 31, 2001 of \$108,400,000. The resulting effective implied capitalization rate for the Properties based on reported property operations (before non-recurring items and after certain property tax adjustments) during the 12 months ended December 31, 2001 averaged approximately 9.2%.

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TNG's conclusion as to value relates to 100% of the Properties, which includes the joint venture interests of both the Partnership and Public Storage. TNG did not separately value the interest of the Partnership in the Properties.

Assumptions, Limitations and Qualifications of the Appraisal. The appraisal reflects TNG's valuation of the Properties as of December 31, 2001 in the context of the information available on such date. Events occurring after December 31, 2001 and before the closing of the merger could affect the properties or assumptions used in preparing the appraisal. TNG has no obligation to update the appraisal on the basis of subsequent events; however, TNG has informed the Partnership that, as of the date of this statement, TNG is not aware of any event or change in conditions since December 31, 2001 that may have caused a material change in the value of the Properties since that date.

The appraisal is subject to certain general and specific assumptions and limiting conditions and is in conformity with the Departure Provision of Uniform Standards of Professional Appraisal Practice. Among other limitations, the appraisal (1) did not consider the effect of easements, restrictions, structural repairs and other similar items on the value of the Properties, (2) assumed that the properties comply with local building codes and zoning ordinances, (3) assumed that there are no new or planned facilities except as noted in the appraisal and (4) did not involve the physical inspections of all of the subject or competing properties. See Appendix B for a discussion of the specific assumptions, limitations and qualifications of the appraisal.

Compensation and Material Relationships. TNG is being paid an aggregate fee of \$47,000 for preparation of the appraisal, which fee includes reimbursement for all of TNG's related out-of-pocket expenses. TNG is also entitled to indemnification against certain liabilities. The fee was negotiated with TNG and payment is not dependent upon completion of the merger. As a leading appraiser of mini-warehouses, TNG (and its predecessor) have prepared appraisals for Public Storage and its affiliates, including appraisals of the properties of prior partnership and REITs in connection with their mergers with Public Storage, and TNG is expected to continue to prepare appraisals for Public Storage. From January 1, 1999 to the present, TNG (and its predecessor) have received compensation aggregating approximately \$149,500 for these services (exclusive of amounts received in connection with the merger).

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Fairness Opinion from Stanger

Stanger was engaged by the Partnership to deliver a written opinion of its determination as to the fairness of the consideration to be received in the merger, from a financial point of view, to the public limited partners. The full text of the opinion, which contains a description of the assumptions and qualifications made, matters considered and limitations on the review and opinion, is set forth in Appendix C to this statement and should be read in its entirety. Certain of the material assumptions, qualifications and limitations to the fairness opinion are set forth below. The summary set forth below does not purport to be a complete description of the analyses used by Stanger in rendering the fairness opinion. Arriving at a fairness opinion is a complex analytical process not necessarily susceptible to partial analysis or amenable to summary description.

Except for certain assumptions, described more fully below, which the Partnership advised Stanger that it would be reasonable to make, the Partnership imposed no conditions or limitations on the scope of Stanger's investigation or with respect to the methods and procedures to be followed in rendering the fairness opinion. The Partnership has agreed to indemnify Stanger against certain liabilities arising out of its engagement to prepare and deliver the fairness opinion.

Experience of Stanger. Stanger, founded in 1978, has provided information, research, investment banking and consulting services to clients throughout the United States, including major NYSE firms and insurance companies and over 70 companies engaged in the management and operation of partnerships and REITs. The investment banking activities of Stanger include financial advisory services, asset and securities valuations, equity and debt placements, industry and company research and analysis, litigation support and expert witness services, and due diligence investigations in connection with both publicly registered and privately placed securities transactions.

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Stanger, as part of its investment banking business, is regularly engaged in the valuation of businesses and their securities in connection with mergers, acquisitions, reorganizations and for estate, tax, corporate and other purposes. In particular, Stanger's valuation practice principally involves partnerships, partnership securities and the assets typically owned through partnerships including, but not limited to, oil and gas reserves, real estate, cable television systems and equipment leasing assets.

Summary of Materials Considered. In the course of Stanger's analysis to render its opinion regarding the merger, Stanger: (1) reviewed a draft of this statement in substantially the form intended to be filed with the Securities and Exchange Commission (the "SEC") and provided to limited partners; (2) reviewed the financial statements contained in Form 10-K filed with the SEC for Public Storage and the Partnership for the three fiscal years ending December 31, 1998, 1999 and 2000 and the quarterly report on Form 10-Q of Public Storage and the Partnership for the nine months ended September 30, 2001; (3) reviewed the MAI certified appraised value of the portfolio prepared by TNG; (4) reviewed information regarding purchases and sales of self-storage properties by Public Storage or any affiliated entities over the past three years, and other information available relating to acquisition criteria for self-storage properties; (5) reviewed estimates prepared by the Partnership, and based in part on the appraisal, of the current net liquidation value per Partnership unit of the Partnership's assets and projections of cash flow from operations, cash distributions and going-concern values per Partnership unit for the Partnership,

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and the calculation of the allocation of such values between the joint venture partners and between the limited and general partners; (6) discussed with certain members of management of Public Storage and the Partnership conditions in self-storage property markets, conditions in the market for sales/acquisitions of properties similar to those owned by the Partnership, current and expected operations and performance, and the financial condition and future prospects of Public Storage and the Partnership; (7) reviewed historical market prices, trading volume and dividends for Public Storage common stock and historical secondary market transactions for Partnership units; and (8) conducted other studies, analyses, inquiries and investigations as Stanger deemed appropriate.

Summary of Analysis. The following is a summary of certain financial and comparative analyses reviewed by Stanger in connection with and in support of its fairness opinion. The summary of the opinion and analysis of Stanger set forth in this statement is qualified in its entirety by reference to the full text of such opinion.

Review of Appraised Value. In preparing its opinion, Stanger relied upon the appraisal of the Properties which was prepared as of December 31, 2001 by TNG, an independent appraiser. Stanger reviewed the appraised value rendered by TNG and discussed with TNG its experience and qualifications and the appraisal conclusions.

Stanger observed that the appraisal was certified by a Member of the Appraisal Institute and was conducted on a limited scope basis utilizing the income approach to valuation, applying the direct capitalization and discounted cash flow methods to establish a value for each individual property, and the sales comparison approach.

Stanger observed that the effective capitalization rate utilized in the appraisal based upon the Properties' net operating income generated for the 12 months ended December 31, 2001 and before the reduction in value for deferred maintenance items was approximately 9.3% and approximately 9.2% after certain property tax adjustments to such net operating income. Lower capitalization rates generally reflect higher sales prices for income-producing properties.

Review of Liquidation Analysis. Stanger reviewed an analysis prepared by the Partnership of the estimated value of the Partnership based upon liquidation of its portfolio utilizing estimates prepared by the Partnership and information provided by TNG.

The liquidation analysis assumes that all of the properties are sold concurrently at the appraised value as reported in the appraisal to an independent third-party buyer or buyers. Costs of such property sales by the Partnership to independent third-parties were estimated by the Partnership to total approximately \$4.8 million and were comprised of estimates of \$464,000 in state and local transfer taxes, \$3,252,000 in commissions and \$1,084,000 in legal and other closing costs. Such amounts were based on prevailing transfer tax rates in the locale of each property and on estimates of the Partnership based on knowledge of real estate transactions. Stanger observed that the

estimated net proceeds from such liquidation, the sale of the Partnership's interest in PSBP (less \$0.06 per PSBP unit in brokerage commissions) and the associated dissolution of the Partnership and distribution of all remaining assets was \$577 per Partnership unit, versus the consideration offered in the merger of \$596 cash per unit, or the equivalent of \$596 of Public Storage common stock per unit, based on the average closing price of Public Storage common

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stock on the NYSE during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Date.

Stanger also reviewed information on multi-property purchases and sales of self-storage properties transacted by Public Storage, Public Storage Management or affiliates. Stanger observed that Public Storage, Public Storage Management or affiliated entities have acquired only one third-party bulk portfolio since 1996. Stanger observed that the stabilized capitalization rate for that portfolio, which was purchased in the fourth quarter of 2000, averaged approximately 10.3%. However, Stanger deemed that portfolio not comparable to the Partnership's portfolio in that it was comprised of four recently developed and unstabilized properties (with a weighted average occupancy of approximately 27% at the time of purchase). During 1996, Public Storage, Public Storage Management and affiliated entities completed 11 bulk purchases of property portfolios, excluding the properties associated with the mergers of affiliated REITs with Public Storage. These transactions involved affiliated and unaffiliated entities with an interest in 73 properties with an aggregate acquisition cost of approximately \$209 million. Capitalization rates ranged from approximately 9.0% to 11.6% and averaged 9.6%.

Stanger also reviewed information regarding the merger between Public Storage and Storage Trust Realty ("Storage Trust") which was closed in March 1999. Stanger noted that in the merger Public Storage acquired a portfolio of 215 self-storage properties and certain other assets for aggregate consideration of approximately \$600 million, based on the price of Public Storage common stock as of November 6, 1998. Stanger also noted that in the context of rendering a fairness opinion, the financial advisor to Storage Trust performed a net asset valuation of Storage Trust based on a real estate valuation utilizing property specific financial projections for 1999 and a direct capitalization method. The capitalization rates utilized in this analysis ranged from 9.5% to 10.5%.

Based on the total transaction value of the Storage Trust merger and other information cited in the proxy statement relating to the merger, the implied trailing and forward capitalization rates of the Storage Trust portfolio in the merger were estimated by Stanger to be approximately 8.7% and 9.3%, respectively. This capitalization rate does not reflect certain options and benefits to be received by Public Storage as a result of the merger, including a reduction in consolidated general and administrative expenses from the elimination of certain duplicative administrative costs following the merger, estimated at over \$2 million on a pro forma basis for the nine months ending September 30, 1998.

Review of Going-Concern Analysis. Stanger reviewed financial analyses and projections prepared by the Partnership concerning estimated cash flows and distributions from the Partnership's continued operation as an independent stand-alone entity and estimated sales proceeds from the liquidation of the Properties. The analyses incorporated estimates of revenues and operating expenses for the Properties, capital expenditures (including deferred maintenance items), entity-level general and administrative costs and interest income, and cash flow distributions and proceeds from sale of the Properties during a projection period of five years. The analyses and projections assumed, among other things, that (1) net operating income for the Partnership including projected distributions with respect to the Partnership's holdings in PS Business Parks, Inc. would grow at a compound annual rate of approximately 5.4% over the five-year projection period; (2) general and administrative expenses were not escalated over the projection period; and (3) the sale of the Properties would occur at the terminal value projected by capitalizing the estimated net operating income in year six at a capitalization rate equal to the midpoint of the effective capitalization rate in the appraisal and the capitalization rate used by the appraiser in the residual value component of the discounted cash flow analysis (an average capitalization rate of 9.6%). Real estate selling costs were assumed to be incurred at the same percentage of sale

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proceeds (4.4%) as incurred in the liquidation alternative.

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The projections evaluated the Partnership's going-concern value by analyzing projected cash flow and distributions assuming that the Partnership was operated as an independent stand-alone entity and its assets sold in a liquidation of the Partnership after a five-year holding period. The projections also assume that the Partnership's interest in PSBP is sold at an FFO multiple of 10 (reduced by a commission of \$.06 per share). Distributions and sale proceeds per Partnership unit were discounted in the projections at rates ranging from 12% to 13%.

Stanger observed that the estimated values per Partnership unit on a going-concern basis resulting from the above analysis were \$540 and \$562, compared with the consideration in the merger of \$596 per Partnership unit.

The estimated values assigned to the alternative forms of consideration are based on a variety of assumptions that have been made by the Partnership. While the Partnership has advised Stanger that it believes that it has a reasonable basis for these assumptions, these assumptions may not reflect the Partnership's actual experience and such differences could be material. See "- Comparison of Consideration to be Received in the Merger to Other Alternatives."

Review of Tender Offer and Secondary Market Prices. Stanger observed that Partnership units have been purchased in recent months on the informal secondary market for partnership securities and through tender offers by Public Storage.

Stanger observed that, based on prices reported to Stanger by various firms active in the informal secondary market for partnership interests, the highest selling price reported for Partnership units in the informal secondary market between January 1, 2000 and December 31, 2001 was \$451 per unit compared with the consideration in the merger of \$596 per unit.

Stanger also observed that the Partnership units had been the subject of tender offers and informal secondary market purchases by Public Storage in 2000 and 2001 at prices ranging from \$355 to \$381 per unit.

Distribution/FFO Analysis. Stanger reviewed distributions per Partnership unit and FFO per Partnership unit on an equivalent per unit basis. Stanger noted that based on a closing price of \$37.25 for Public Storage common stock and the resulting exchange ratio of Partnership units for Public Storage common stock, the current regular quarter distribution rate for Public Storage (\$0.45 per share) and the regular and special distributions (which are not necessarily recurring and which does not reflect potential future expenditures for deferred maintenance) for the Partnership during 2001 (32.18 per unit), annual distributions per share would decrease by approximately \$3.38 (10.5%) for limited partners receiving Public Storage common stock.

Stanger observed that, at a closing price of \$37.25 for Public Storage common stock and based on operating results for the Partnership and Public Storage during the nine months ending September 30, 2001, annualized FFO per Partnership unit on a fully diluted basis on the equivalent per share basis earned by limited partners would decrease by approximately 9.4%. Stanger noted, however, that Public Storage maintained extraordinary cash balances during the period, reflecting uninvested proceeds from issuance of fixed income securities. Adjusting for this factor and for certain acquisitions consummated during the fourth quarter 2001, annualized FFO per Partnership unit on a fully diluted basis on an equivalent per share basis earned by limited partners would be

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approximately the same.

Conclusions. Based on the foregoing, Stanger concluded that, based upon its analysis and assumptions, and the qualifications and limitations cited in its opinion, as of the date of the fairness opinion, the consideration to be received in the merger is fair to the public limited partners, from a financial point of view.

Assumptions. In evaluating the merger, Stanger relied upon and assumed, without independent verification, the accuracy and completeness of all financial and other information contained in this statement or that was furnished or otherwise communicated to Stanger. Stanger did not perform an independent appraisal of the assets and liabilities of Public Storage, the Partnership or any joint ventures and relied upon and assumed the accuracy of the restricted appraisal and adjustments included therein, including but not limited to the amount and timing of deferred maintenance items. Stanger also relied on the

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assurances of Public Storage and the Partnership that any projections, budgets, estimates of deferred maintenance or value estimates contained in this statement or otherwise provided to Stanger, were reasonably prepared on bases consistent with actual historical experience and reflect the best currently available estimates and good faith judgments; that the property values and the Partnership's net asset value have been allocated between the joint venture partners and between the limited and general partners in accordance with the provisions of the joint venture and Partnership agreements in the same manner they would be allocated upon the joint ventures' and Partnership's liquidation; that no material changes have occurred in the appraised value of the Properties or the information reviewed between the date of the appraisal or the date of the other information provided and the date of the opinion; and that Public Storage and the Partnership are not aware of any information or facts that would cause the information supplied to Stanger to be incomplete or misleading in any material respect.

In connection with preparing the fairness opinion, Stanger was not engaged to, and consequently did not, prepare any written report or compendium of its analysis for internal or external use beyond the analysis set forth in Appendix C. Stanger does not intend to deliver any additional written summary of the analysis.

Compensation and Material Relationships. For preparing the fairness opinion and related services in connection with the merger, Stanger is being paid a fee of \$75,000. In addition, Stanger will be reimbursed for certain out-of-pocket expenses, including legal fees, up to a maximum of \$9,000 and will be indemnified against certain liabilities, including certain liabilities under the federal securities laws. The fee was negotiated with Stanger. Payment of the fee to Stanger is not dependent upon completion of the merger. Stanger has rendered consulting and related services and provided products to Public Storage and its affiliates, including fairness opinion to the public shareholders of 18 REITs and five public limited partnerships in connection with their mergers with Public Storage, and may be engaged in the future. From January 1, 1999 to the present, Stanger has received compensation aggregating approximately \$255,000 for these services and products (exclusive of amounts received in connection with the merger).

Limitations and Qualifications. Stanger was not requested to, and therefore did not: (1) select the method of determining the consideration being paid in the merger; (2) make any recommendation to the public limited partners with respect to whether to approve or reject the merger or whether to select the

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cash or Public Storage common stock option in the merger; or (3) express any opinion as to the business decision to effect the merger, alternatives to the merger or tax factors resulting from the merger, or relating to Public Storage's continued qualification as a REIT. Stanger's opinion is based on business, economic, real estate and securities markets, and other conditions as of the date of its analysis. Events occurring after that date may materially affect the assumptions used in preparing the opinion.

Among the factors considered in the selection of Stanger were Stanger's experience in connection with the mergers of 18 affiliated REITs with Public Storage and in connection with the merger of five similar Partnerships with Public Storage, its expertise in real estate transactions and the fee quoted by Stanger. No party other than Stanger was contacted to render an opinion as to the fairness of the merger to public limited partners, and the Partnership has neither requested nor received any views, preliminary or otherwise, from any party other than Stanger regarding the fairness of the merger to the public limited partners.

The Merger Agreement

If the conditions to the merger are satisfied or waived, the merger will be consummated pursuant to the merger agreement which is set forth in Appendix A to, and is incorporated by reference into, this statement. As a result of the merger, all of the Partnership units will be held by a subsidiary of Public Storage. The merger agreement contains representations and warranties of Public Storage and the Partnership and certain other provisions relating to the merger. The representations and warranties are extinguished by, and do not survive, the merger.

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Conditions to Consummation of the Merger. Consummation of the merger is contingent upon standard conditions, including the following: (1) the Registration Statement shall have been declared effective by the Commission and Public Storage shall have received all other authorizations necessary to issue Public Storage common stock in exchange for Partnership units and to consummate the merger; (2) the merger agreement and the merger shall have been approved and adopted by the requisite vote of the limited partners (which condition has been satisfied by Public Storage's vote of its Partnership units in favor of the merger); (3) the shares of Public Storage common stock issued to limited partners shall be listed on the NYSE; (4) the Partnership shall have received a fairness opinion from Stanger (which opinion has been received); (5) no legal action challenging the merger shall be pending; and (6) in the case of Public Storage, the average of the per share closing prices on the NYSE of the Public Storage common stock during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Date is not less than \$34. The obligation of Public Storage to effect the merger is also subject to Public Storage, in its sole discretion, being satisfied as to title to, and the results of an environmental audit of, the Properties. Any of these conditions may be waived by the board of directors of Public Storage.

Amendment or Termination. The merger agreement provides for amendment or modification thereof with respect to the merger by written agreement authorized by the board of directors of Public Storage and the general partners. The merger may be abandoned at any time before or after shareholder approval by mutual written consent and may be abandoned by either party if, among other things, the closing of the merger has not occurred on or before December 31, 2002.

Consummation. It is contemplated that the merger will be consummated

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by filing a certificate of merger with the California Secretary of State.

Certificates for Public Storage Common Stock. After the merger, holders of Partnership units that were converted into shares of Public Storage common stock, without any further action, will be entitled to receive certificates representing the number of whole shares of Public Storage common stock into which Partnership units will have been converted and cash payment in lieu of fractional share interests, if applicable. As soon as practicable after the merger, the exchange agent, EquiServe Trust Company, N.A., will send the certificates for the Public Storage common stock to each holder of Partnership units whose Partnership units have been converted into shares of Public Storage common stock. HOLDERS OF PARTNERSHIP UNITS WHO INTEND TO RECEIVE PUBLIC STORAGE COMMON STOCK IN THE MERGER DO NOT NEED TO TAKE ANY ACTION TO RECEIVE THEIR RESPECTIVE CERTIFICATES REPRESENTING THE PUBLIC STORAGE COMMON STOCK. IT IS IMPORTANT THAT YOU MAKE SURE YOU RECEIVE YOUR CERTIFICATE FOR THE PUBLIC STORAGE COMMON STOCK MAILED TO YOU BY EQUISERVE TRUST COMPANY, N.A. IF YOU DO NOT RECEIVE YOUR PUBLIC STORAGE COMMON STOCK CERTIFICATE BY _____, 2002, CALL EQUISERVE TRUST COMPANY, N.A. AT (781) 575-3120 SO THAT AN AFFIDAVIT OF NON-RECEIPT CAN BE SENT TO YOU AND A CERTIFICATE REISSUED AT NO COST TO YOU. ANY SHAREHOLDER WHO CONTACTS EQUISERVE TRUST COMPANY, N.A. AFTER _____, 2002 REQUESTING THAT A CERTIFICATE BE REISSUED MAY NEED TO EXECUTE AN AFFIDAVIT OF LOSS AND PAY THE COST OF A BOND OF INDEMNITY BEFORE A CERTIFICATE CAN BE REPLACED.

After the merger, there will be no further registration of transfers of Partnership units on the Partnership's records.

Fractional Shares. No fractional shares of Public Storage common stock will be issued in the merger. In lieu of any fractional share interests, each holder of Partnership units who would otherwise be entitled to a fractional share of Public Storage common stock will, upon surrender of the certificate representing Public Storage common stock, receive a whole share of Public Storage common stock if such fractional share to which such holder would otherwise have been entitled is .5 of a share or more, and such fractional share shall be disregarded if it represents less than .5 of a share; provided that such fractional share shall not be disregarded if it represents .5 of 1% or more of the total number of shares of Public Storage common stock such holder is entitled to receive in the merger. In such event, the holder will be paid an amount in cash (without interest), rounded to the nearest \$.01, determined by

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multiplying (1) the per share closing price on the NYSE of the Public Storage common stock at the time of effectiveness of the merger by (2) the fractional interest.

Restrictions on Other Acquisitions. The Partnership has agreed not to initiate, solicit or encourage, directly or indirectly, any inquiries or the making of any proposal with respect to a merger, consolidation, securities exchange or similar transaction involving it, or any purchase of all or any significant portion of its assets, or any equity interest in it, other than the transactions contemplated by the merger agreement, or engage in any negotiations concerning, or provide any confidential information or data to, or have discussions with, any person relating to such a proposal, provided that the general partners may furnish or cause to be furnished information and may participate in such discussions and negotiations through its representatives with persons who have sought the same if the failure to provide such information or participation in the negotiations and discussions might cause the Partnership to breach its fiduciary duty to limited partners under applicable law as advised by counsel. The Partnership has agreed to notify Public Storage immediately if

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inquiries or proposals are received by, any such information is requested from, or negotiations or discussions are sought to be initiated or continued with it, and to keep Public Storage informed of the status and terms of any such proposals and any such negotiations or discussions.

Distributions. Pending the merger, the Partnership is precluded from declaring or paying any distributions to the limited partners other than (1) regular distributions at a quarterly rate not in excess of \$6.62 per Partnership unit and (2) distributions to the limited partners immediately prior to the effectiveness of the merger equal to the amount by which the Partnership's estimated net asset value allocable to limited partners as of the date of the merger exceeds \$596 per Partnership unit. See "- Determination of Payments to be Received by Limited Partners in the Merger."

Cash Election Procedure

Each holder of record of Partnership units may make a cash election to have his or her Partnership units converted into the right to receive cash in the merger. All cash elections are to be made on a cash election form. A cash election form is being sent to all holders of record of Partnership units on the date of this statement. To be effective, a cash election form must be properly completed and signed and must be received by the exchange agent, EquiServe Trust Company, N.A., no later than 5:00 p.m. New York City time on _____, 2002. Holders of record of units who hold units as nominees, trustees or in other representative capacities may submit multiple cash election forms, provided that such representative certifies that each such cash election form covers all the units held by such representative for a particular beneficial owner. Any cash election form may be revoked by written notice received by the exchange agent prior to 5:00 p.m., New York City time, on _____, 2002. In addition, all cash election forms will automatically be revoked if the exchange agent is notified in writing that the merger has been abandoned. The exchange agent may determine whether or not elections to receive cash have been properly made or revoked, and any such determination shall be conclusive and binding.

A holder of Partnership units may not make a cash election as to less than all of the units owned by such holder. Any holder of units who does not submit a properly completed and signed cash election form which is received by the exchange agent prior to 5:00 p.m., New York City time, on _____, 2002 will receive Public Storage common stock in the merger. If Public Storage or the exchange agent determines that any purported cash election was not properly made, such purported cash election will be deemed to be of no force and effect and the holder of units making such purported cash election will, for purposes hereof, receive Public Storage common stock in the merger. None of Public Storage, the Partnership or the exchange agent will be under any obligation to notify any person of any defect in a cash election form.

The tax consequences of receiving cash or Public Storage common stock are described under "Federal Income Tax Considerations - The Merger."

Consequences to the Partnership if the Merger is Not Completed

If the merger is not completed, the Partnership will remain as a separate legal entity and will continue to operate its properties.

Costs of the Merger

It is estimated that the total consideration (cash and Public Storage common stock) to be paid by Public Storage to acquire all of Partnership units

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owned by the public limited partners in the merger and to pay related costs and expenses would be approximately \$33.1 million. These amounts will be paid from Public Storage's working capital or with funds borrowed under credit facilities with a group of banks for which Wells Fargo Bank, National Association acts as agent. These credit facilities aggregate \$200,000,000 and bear interest at LIBOR plus .45% to 1.50%. Public Storage intends to repay amounts borrowed under these facilities from the public or private placement of securities or from Public Storage's undistributed cash flow.

If the merger is completed, all costs incurred by Public Storage and the Partnership in connection with the merger will be paid by Public Storage. If the merger is not completed, all costs incurred in connection with the merger will be paid by the party incurring such costs, except that Public Storage will pay one-half of the cost of any expenses incurred in connection with the printing of this statement and related registration statement, the appraisal, environmental and structural audits and filing fees and the Partnership will pay the other one-half of such costs. The Partnership's share of such costs would be paid from its working capital.

The following is a statement of certain fees and expenses estimated to be incurred in connection with the merger (exclusive of amounts paid as a result of cash elections).

| | |
|--|-----------|
| Printing and mailing | \$20,000 |
| Legal | 50,000 |
| Real estate appraisal and fairness opinion | 129,000 |
| Registration, listing and filing fees | 10,000 |
| Accounting | 15,000 |
| Other | 15,000 |
| | ----- |
| TOTAL | \$239,000 |
| | ===== |

Accounting Treatment

For accounting purposes, the merger will be treated as a purchase. Accordingly, the cost of the assets and liabilities of the Partnership will be allocated based on fair value.

Regulatory Requirements

The merger is subject to compliance with federal and state securities law requirements.

Comparison of Partnership Units with Public Storage Common Stock

The information below compares certain attributes of Public Storage Common Stock with the Partnership units. The effect of the merger on limited partners who receive Public Storage common stock in the merger is set forth in *italics* below each caption.

INVESTMENT OBJECTIVES AND POLICIES

Partnership:

The principal investment objectives are to provide (1) quarterly cash distributions from its operations and (2) long-term capital gains through appreciation in the value of properties.

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Under its organizational documents, the Partnership is not permitted to raise new capital or to reinvest operating cash flow or sale or financing proceeds. The Partnership will terminate on December 31, 2038, unless earlier dissolved. The Partnership anticipated selling or financing its properties within five to eight years from acquisition (i.e., between approximately 1991 and 1994).

Public Storage:

The investment objectives of Public Storage are to maximize FFO allocable to holders of Public Storage common stock and to increase shareholder value through internal growth and acquisitions. FFO is a supplemental performance measure for equity REITs used by industry analysts. FFO does not take into consideration principal payments on debt, capital improvements, distributions and other obligations of Public Storage. Accordingly, FFO is not a substitute for Public Storage's net cash provided by operating activities or net income as a measure of Public Storage's liquidity or operating performance. An increase in Public Storage's FFO will not necessarily correspond with an increase in distributions to holders of Public Storage common stock. See "-Liquidity, Marketability and Distributions."

Public Storage intends to continue its operations for an indefinite period of time and is not precluded from raising new capital, including senior securities that would have priority over Public Storage common stock (including Public Storage common stock issued in the merger) as to cash flow, distributions and liquidation proceeds, or from reinvesting cash flow or sale or financing proceeds in new properties, except to the extent such reinvestment precludes Public Storage from satisfying the REIT distribution requirements. Therefore, Public Storage shareholders should expect to be able to liquidate their investment only by selling their shares in the market, and the market value of the Public Storage common stock may not necessarily equal or exceed the market value of Public Storage's assets or the net proceeds which might be available for distribution upon liquidation if Public Storage were to liquidate. Public Storage has grown, and intends to continue to grow, as new investments are made.

Limited partners who receive Public Storage common stock in the merger will be changing their investment from "finite-life" to "infinite-life"; they will be able to realize the value of their investment only by selling the Public Storage common stock. The interest of Public Storage shareholders can be diluted through the issuance of additional securities, including securities that would have priority over Public Storage common stock as to cash flow, distributions and liquidation proceeds. Public Storage has an effective registration statement for preferred stock, common stock, equity stock and warrants and intends to issue additional securities under this registration statement. There is no assurance that any such securities will be issued. See "Risk Factors - Uncertainty Regarding Market Price of Public Storage Common Stock" and "- Financing Risks - Dilution and Subordination."

Public Storage has no plans with respect to a sale or financing of any of the Properties.

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BORROWING POLICIES

Partnership:

The Partnership has no outstanding borrowings. It is fully invested and would distribute the proceeds from a financing of properties.

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Public Storage:

Subject to certain limitations in Public Storage's bylaws, Public Storage has broad powers to borrow in furtherance of its investment objectives. Public Storage has incurred in the past, and may incur in the future, both short-term and long-term debt to increase its funds available for investment in real estate, capital expenditures and distributions. As of September 30, 2001, Public Storage's ratio of "Debt" (liabilities other than "accrued and other liabilities" and "minority interest" that should, in accordance with GAAP, be reflected on Public Storage's balance sheet) to "Assets" (Public Storage's total assets that should, in accordance with GAAP, be reflected on Public Storage's balance sheet) was approximately 3%.

Public Storage has outstanding debt and reinvests proceeds from borrowings. The incurrence of debt increases the risk of loss of investment.

TRANSACTIONS WITH AFFILIATES

Partnership:

The partnership agreement restricts a variety of business transactions with affiliates. The partnership agreement may be amended by a majority vote of limited partners. See "Amendment to Partnership Agreement."

Public Storage:

Public Storage's bylaws restrict Public Storage from acquiring properties from its affiliates or from selling properties to them unless the transaction (1) is approved by a majority of Public Storage's independent directors and (2) is fair to Public Storage based on an independent appraisal.

Given Public Storage's control of all voting decisions with respect to the Partnership, both Public Storage and the Partnership can enter into transactions with affiliates without the need for approval of the public shareholders and public limited partners, respectively. In the case of Public Storage, however, these transactions require approval of Public Storage's independent directors.

PROPERTIES (AS OF SEPTEMBER 30, 2001)

Partnership:

The Partnership owns direct and indirect equity interests in 33 mini-warehouses in 14 states. Also owns an interest in PSBP. For the nine months ended September 30, 2001, the weighted average occupancy level and realized annual rent per square foot of the Properties were 90% and \$9.78, respectively. See "Description of Partnership Properties."

Public Storage:

Public Storage owns equity interests (directly, as well as through general and limited partnership interests) in 1,378 storage facilities in 37 states, including 643 wholly owned properties. Also owns an interest in PSBP. See "Description of Public Storage's Properties."

Because Public Storage owns substantially more property interests in more states than the Partnership, Public Storage's results of operations are less affected by the profitability or lack of profitability of a single property than are those of the Partnership and it would be more difficult to liquidate Public Storage than the Partnership within a reasonable period of time.

LIQUIDITY, MARKETABILITY AND DISTRIBUTIONS

Partnership:

There is no active trading market for Partnership units. The Partnership has not issued any securities that have priority over its Partnership units.

Public Storage:

Public Storage common stock is traded on the NYSE. During the 12 months ended September 30, 2001, the average daily trading volume of Public Storage common stock was approximately 174,000 shares. Public Storage has issued, and may in the future issue, securities that have priority over Public Storage common stock as to cash flow, distributions and liquidation proceeds.

Distributions are paid to limited partners from cash available for distribution. Public Storage is required to distribute at least 95% of its ordinary REIT taxable income in order to maintain its qualification as a REIT. Public Storage distributes less than its cash available for distribution (recently distributing amounts approximately equal to its taxable income), permitting it to retain funds for additional investment and debt reduction.

A limited partner who receives Public Storage common stock in the merger will have an investment for which the market is broader and more active than the market for Partnership units. Distributions on Public Storage common stock are lower than the distributions on the Partnership units. Distributions on Public Storage common stock also are subject to priority of preferred stock. See "Distributions and Price Range of Public Storage Common Stock" and "Distributions and Market Prices of Partnership Units" for information on market prices of Partnership units and Public Storage Common Stock.

TAXATION

Partnership:

Income or loss earned by the Partnership is not taxed at the partnership level. Limited partners are required to report their allocable share of Partnership income and loss on their respective tax returns. Income and loss from the Partnership generally constitute "passive" income and loss, which can generally offset "passive" income and loss from other investments. Due to depreciation and other noncash items, cash distributions are not generally equivalent to the income and loss allocated to limited partners. During operations, cash distributions have been partially sheltered. After the end of each fiscal year, limited partners receive annual schedule K-1 forms showing their allocable share of Partnership income and loss for inclusion on their federal income tax returns. Limited partners are also required to file state income tax returns and/or pay state income taxes in California and in certain other states in which the Properties are located.

Public Storage:

Public Storage was organized to qualify for taxation as a REIT and intends to continue to so qualify. REITs generally are permitted to deduct distributions to their shareholders, which, to the extent of such deductions, effectively eliminates the "double taxation" (at the corporate and shareholder levels) that typically results when a corporation earns income and distributes that income to shareholders in the form of dividends. Distributions received by Public Storage

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shareholders generally constitute portfolio income, which cannot be offset by "passive" losses from other investments. Losses and credits generated within Public Storage do not pass through to shareholders. After the end of Public Storage's calendar year, shareholders receive the less complicated Form 1099-DIV used by corporations to report their dividend income. See "Federal Income Tax Considerations."

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The Partnership is a pass-through entity, whose income and loss is not taxed at the entity level but instead allocated directly to the limited and general partners. Limited partners are taxed on income or loss allocated to them, whether or not cash distributions are made to them. In contrast, Public Storage qualifies as a REIT, allowing it to deduct dividends paid to its shareholders. To the extent Public Storage has net income (after taking into account the dividends paid deduction), such income will be taxed at the corporate level at the standard corporate tax rates. Dividends paid to Public Storage shareholders will constitute portfolio income and not passive income.

VOTING RIGHTS

Partnership:

Limited partners by a majority vote may, without the concurrence of the general partners, amend the partnership agreement, dissolve the partnership, remove and/or elect a general partner, and approve or disapprove the sale of all or substantially all of the Partnership's assets. As owner of more than 50% of the Partnership units, Public Storage controls all voting decisions with respect to the Partnership.

Public Storage:

Public Storage holds annual meetings, with each such meeting on a date within 15 months of the prior annual meeting, at which the shareholders elect the directors, with each shareholder entitled to cast as many votes as there are directors to be elected, multiplied by the number of shares registered in his or her name. Under California law, a majority vote of shareholders is required for (1) the removal of directors, (2) the dissolution of the company, (3) the amendment of certain provisions of the organizational documents and (4) the sale of all or substantially all of the company's assets. The public shareholders of Public Storage are substantially limited in their ability to control Public Storage in view of the significant ownership of Public Storage Common Stock by the Hughes family.

Shareholders have different voting rights, including the right to elect directors annually, than the voting rights afforded to limited partners.

MANAGEMENT AND DUTIES

Partnership:

As a matter of state law, the general partners have liability for the payment of Partnership obligations and debts, unless limitations upon such liability are expressly stated in the obligation. The partnership agreement provides that the general partners are not liable to the Partnership or the limited partners for any act or omission performed in good faith pursuant to authority granted by the partnership agreement, and in a manner reasonably believed to be within the scope of authority granted and in the best interests of the Partnership, provided that such act or omission did not constitute fraud, misconduct, bad faith or negligence. In addition, the partnership agreement indemnifies the

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general partners for liability, loss, damage, costs and expenses, including attorneys' fees, incurred by them in conducting the Partnership's business, except in the case of fraud, misconduct, bad faith or negligence.

Public Storage:

Public Storage is managed by its board of directors and executive officers. A majority of the directors of Public Storage are independent directors. Under California law, directors are accountable to a corporation and its shareholders as fiduciaries and are required to perform their duties in good faith, in a manner believed to be in the best interests of a corporation and its shareholders and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. The liability of the directors of Public Storage and the Partnership is limited under the provisions of California law and their organizational documents, which limit a director's liability for monetary damages to the respective corporation or its shareholders for breach of the director's duty of care, where a director fails to exercise sufficient care in carrying out the responsibilities of office. Those provisions would not protect a director who knowingly did

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something wrong, or otherwise acted in bad faith, nor would they foreclose any other remedy which might be available to the respective corporation or its shareholders, such as the availability of non-monetary relief. In addition, Public Storage's organizational documents provide Public Storage with the authority to indemnify its "agents" under certain circumstances for expenses or liability incurred as a result of litigation. Under California law, "agents" are defined to include directors, officers and certain other individuals acting on a corporation's behalf. Public Storage has taken advantage of those provisions and has entered into agreements with the respective corporation's directors and executive officers, indemnifying them to the fullest extent permitted by California law. To the extent that the foregoing provisions concerning indemnification apply to actions arising under the Securities Act, Public Storage has been advised that, in the opinion of the Commission, such provisions are contrary to public policy and therefore are not enforceable.

The general partners have, under most circumstances, no liability to the Partnership for acts or omissions it undertakes when performed in good faith, in a manner reasonably believed to be within the scope of their authority and in the best interests of the Partnership. The general partners also have, under specified circumstances, a right to be reimbursed by the Partnership for liability, loss, damage, costs and expenses they incur by virtue of serving as general partners. Although the standards are expressed somewhat differently, there are similar protections from liability available to directors and officers of Public Storage when acting on behalf of Public Storage and rights of directors and officers to seek indemnification from Public Storage. Public Storage believes that the scope of the liability and indemnification provisions in Public Storage's governing documents provides protection against claims for personal liability against Public Storage's directors and officers which is comparable to, though not identical with, the protections afforded to the general partners under the partnership agreement.

ADDITIONAL ISSUANCES OF SECURITIES AND ANTI-TAKEOVER PROVISIONS

Partnership:

The Partnership Agreement does not provide for the issuance of additional Partnership units.

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Public Storage:

Subject to the rules of the NYSE and applicable provisions of California law, Public Storage has issued and intends to continue to issue authorized capital stock without shareholder approval.

Given the ownership level of Public Storage common stock by the Hughes family and Public Storage's flexibility to issue capital stock, including senior securities with special voting rights and priority over Public Storage common stock, and control of all Partnership voting decisions by Public Storage, both Public Storage and the Partnership are in a position to deter attempts to obtain control in transactions not approved by management.

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LIMITED LIABILITY OF INVESTORS

Partnership:

Under the partnership agreement and California law, the liability of limited partners for the Partnership debts and obligations is limited to the amount of their investments in the Partnership, together with an interest in undistributed income, if any. The Partnership units are fully paid and nonassessable.

Public Storage:

Under California law, shareholders are not generally liable for corporate debts or obligations. The Public Storage common stock is nonassessable.

The limitation on personal liability of Public Storage shareholders is substantially the same as that of the limited partners.

REVIEW OF INVESTOR LISTS

Partnership:

A limited partner is entitled to request copies of investor lists showing the names and addresses of all limited partners. The right to receive such investor lists is conditioned upon payment of the cost of duplication and mailing.

Public Storage:

Under applicable law, a Public Storage shareholder is entitled, upon written demand, to inspect and copy the record of shareholders, at any time during usual business hours, for a purpose reasonably related to his or her interest as a shareholder.

Limited Partners and shareholders are entitled to access to investor lists and to share records, respectively, subject to certain requirements.

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AMENDMENT TO PARTNERSHIP AGREEMENT

While the general partners do not believe that the partnership agreement prohibits the merger, the partnership agreement is being amended to expressly authorize the merger. Appendix D contains a complete text of the

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amendment.

APPROVAL OF THE MERGER AND PARTNERSHIP AGREEMENT AMENDMENT

General

This statement is first being mailed on or about _____, 2002 to limited partners in connection with the merger and the amendment to the partnership agreement. The general partners are not soliciting proxies in connection with these matters.

Holders of record at the close of business on the date of this statement will be entitled to receive notice of the merger and the amendment to the partnership agreement. On such date, there were outstanding 148,000 Partnership units. As of the record date, Public Storage beneficially owned 92,850 units (approximately 63% of the units).

The affirmative vote of a majority of the Partnership units is required to approve the merger and the amendment. As indicated above, the general partners are not soliciting proxies from the limited partners in connection with these matters. Public Storage owns sufficient units to approve the merger and the amendment without the vote of any other limited partner and has approved these matters by written consent in accordance with California law and the partnership agreement. The merger and the amendment will become effective upon the signing of the amendment and the filing of a certificate of merger with the California Secretary of State, which pursuant to Rule 14c-2 under the Exchange Act will not take place until at least 20 business days following the date on which this statement is mailed to limited partners.

Security Ownership of Certain Beneficial Owners and Management

Partnership. The Partnership is not aware of any beneficial owner of more than 5% of the Partnership units other than Public Storage which owns 92,850 units (63% of the units).

Security Ownership of Certain Beneficial Owners

Public Storage. The following table sets forth information as of the dates indicated with respect to persons known to the Company to be the beneficial owners of more than 5% of the outstanding shares of Public Storage common stock or ("Common Shares") or the Depositary Shares representing interests in equity stock of Public Storage ("Depositary Shares"):

| Name and Address | Shares of Common Stock Beneficially Owned | | Depositary Represented Share of Equity Beneficially Owned |
|---|---|------------------|---|
| | Number of Shares | Percent of Class | Number of Shares |
| B. Wayne Hughes, B. Wayne Hughes, Jr., Tamara Hughes Gustavson, PS Orangeco, Inc., a California corporation ("PSOI") 701 Western Avenue, | 38,157,815 | 32.8% | 1,292,520 |

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Glendale, California 91201-2349,
 PS Insurance Company, Ltd., a
 Bermuda corporation ("PSIC")
 41 Cedar Avenue
 Hamilton, Bermuda (1)

| | | |
|---------------------------------|-----------|------|
| FMR Corp. | 8,157,765 | 7.0% |
| 82 Devonshire Street | | |
| Boston, Massachusetts 02109 (2) | | |
| ----- | | |

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(1) This information is as of March 27, 2001. The common stock of PSOI (representing approximately 5% of the equity) is owned one-third each by B. Wayne Hughes, Tamara Hughes Gustavson (an adult daughter of B. Wayne Hughes) and B. Wayne Hughes, Jr. (an adult son of B. Wayne Hughes), and the non-voting preferred stock of PSOI (representing approximately 95% of the equity) is owned by Public Storage. The stock of PSIC is owned approximately 45% by B. Wayne Hughes, 47% by Tamara Hughes Gustavson and 8% by B. Wayne Hughes, Jr. B. Wayne Hughes has voting and dispositive power with respect to 30,777 Common Shares and 1,000 Depositary Shares owned by PSOI, and B. Wayne Hughes and Tamara Hughes Gustavson share voting and dispositive power with respect to 301,032 Common Shares and 9,783 Depositary Shares owned by PSIC. B. Wayne Hughes disclaims beneficial ownership of the shares owned by B. Wayne Hughes, Jr. and Tamara Hughes Gustavson (Tamara Hughes Gustavson beneficially owns an aggregate of 16,759,304 Common Shares and 1,192,882 Depositary Shares (exclusive of the shares owned by PSIC) or approximately 14.4% of the Common Shares and 21.2% of the Depositary Shares outstanding as of March 27, 2001). Each of the other persons listed above disclaims beneficial ownership of the shares owned by any other person listed above.

The above table does not include 7,000,000 shares of Public Storage class B common stock which are owned by B. Wayne Hughes, Jr. and Tamara Hughes Gustavson. The Class B Common Stock is convertible into Common Stock on a share-for-share basis upon satisfaction of certain conditions, but in no event earlier than January 1, 2003.

(2) This information is as of December 31, 2000 and is based on a Schedule 13G (Amendment No. 7) filed by FMR Corp. (except that the percent shown in the table is based on the Common Shares outstanding at March 27, 2001). As of December 31, 2000, FMR Corp. beneficially owned 8,157,765 Common Shares. This number includes 6,774,210 Common Shares beneficially owned by Fidelity Management & Research Company, as a result of its serving as investment adviser to several investment companies registered under Section 8 of the Investment Company Act of 1940, and 1,383,555 Common Shares beneficially owned by Fidelity Management Trust Company, as a result of its serving as investment manager of various institutional accounts. FMR Corp. has sole voting power with respect to 1,309,355 Common Shares and sole dispositive power with respect to 8,157,765 Common Shares.

The following table sets forth information as of March 27, 2001 concerning the beneficial ownership of the Common Shares and the Depositary Shares of each director of Public Storage, the chief executive officer of Public Storage, the four most highly compensated persons who were executive officers of Public Storage on December 31, 2000 and all directors and executive officers as

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a group:

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| Name | Shares of Common Stock: Beneficially Owned(1) Shares Subject to Options(2) | | Depository S 1/1,000 of a Series A |
|------------------------|--|---------|--|
| | Number of Shares | Percent | Number of S |
| B. Wayne Hughes | 20,322,643 (1) (3) | 17.5% | 64,928 (1) |
| Harvey Lenkin | 85,716 (1) (4) | * | 3,068 (1) |
| | 151,332 (2) | 0.1% | |
| | 237,048 | 0.2% | |
| Marvin M. Lotz | 74,871 (1) (5) | * | 2,432 (1) |
| | 176,332 (2) | 0.2% | |
| | 251,203 | 0.2% | |
| B. Wayne Hughes, Jr. | 1,075,868 (1) (6) | 0.9% | 34,710 (1) |
| Robert J. Abernethy | 66,568 (1) | * | 2,108 (1) |
| | 14,165 (2) | * | |
| | 80,733 | * | |
| Dann V. Angeloff | 78,500 (1) (7) | * | -- |
| | 9,165 (2) | * | |
| | 87,665 | * | |
| William C. Baker | 20,000 (1) | * | 455 (1) |
| | 14,165 (2) | * | |
| | 34,165 | * | |
| Thomas J. Barrack, Jr. | -- | -- | 8,900 (1) |
| | 16,666 (2) | * | |
| | 16,666 | * | |
| Uri P. Harkham | 13,376 (1) (8) | * | 555 (1) |
| | 6,665 (2) | * | |
| | 20,041 | * | |
| Daniel C. Staton | 1,458 (1) | * | 47 (1) |
| | 20,239 (2) | * | |
| | 21,697 | * | |
| Carl B. Phelps | 8,910 (1) (9) | * | 605 (1) |
| | 84,999 (2) | * | |

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| | | | |
|--|--|-------|-------------|
| | 93,909 | * | |
| David Goldberg | 111,713 (1) (10) | * | 4,048 (1) |
| | 170,499 (2) | 0.1% | |
| | 282,212 | 0.2% | |
| All Directors and Executive Officers as a Group (20 persons) | 21,977,887 (1) (3) (4) (5) (6) (7) (8) (9) (10) (11) | 18.9% | 128,542 (1) |
| | 1,162,550 (2) | 1.0% | (6) |
| | ----- | ----- | (1) |
| | 23,140,437 | 19.7% | |

* Less than 0.1%

(1) Common Shares or Depositary Shares, as applicable, beneficially owned as of March 27, 2001. Except as otherwise indicated and subject to applicable community property and similar statutes, the persons listed as beneficial owners of the shares have sole voting and investment power with respect to such shares.

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(2) Represents vested portion as of March 27, 2001, and portion of which will be vested within 60 days of March 27, 2001, of Common Shares subject to options granted to the named individuals or the group pursuant to the Company's stock option and incentive plans.

(3) The 20,322,643 Common Shares include 19,945,983 Common Shares held of record by the B. W. Hughes Living Trust as to which Mr. Hughes has voting and investment power, 1,427 Common Shares held by a custodian of an IRA for Mr. Hughes as to which he has investment power, 30,777 Common Shares held of record by PSOI as to which Mr. Hughes has voting and dispositive power, 301,032 Common Shares held of record by PSIC as to which Mr. Hughes and Tamara Hughes Gustavson share voting and dispositive power and 43,424 Common Shares held in the 401(k) Plan.

The 64,928 Depositary Shares include 52,547 Depositary Shares held of record by the B.W. Hughes Living Trust as to which Mr. Hughes has voting and investment power, 46 Depositary Shares held by a custodian of an IRA for Mr. Hughes as to which he has investment power, 1,000 Depositary Shares held of record by PSOI as to which Mr. Hughes has voting and dispositive power, 9,783 Depositary Shares held of record by PSIC as to which Mr. Hughes and Tamara Hughes Gustavson share voting and dispositive power and 1,552 Depositary Shares held in the 401(k) Plan.

(4) The 85,716 Common Shares include 1,249 and 734 Common Shares, held by custodians of IRAs for Mr. Lenkin and Mrs. Lenkin as to which each has investment power, 468 Common Shares held by Mrs. Lenkin, 1,568 Common Shares held by Mrs. Lenkin as custodian for a son, 107 Common Shares held by a custodian of an IRA for a son and 24,292 Common Shares held in the 401(k) Plan.

The 3,068 Depositary Shares include 138 and 23 Depositary Shares, held by custodians of IRAs for Mr. Lenkin and Mrs. Lenkin as to which each has investment power, 38 Depositary Shares held by Mrs. Lenkin, 100 Depositary Shares held by Mrs. Lenkin as custodian for a son, 100

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Depository Shares held by a custodian of an IRA for a son and 789 Depository Shares held in the 401(k) Plan.

- (5) The 74,871 Common Shares include 17,384 Common Shares held in the 401(k) Plan.
- The 2,432 Depository Shares include 564 Depository Shares held in the 401(k) Plan.
- (6) The 1,075,868 Common Shares include 1,231 and 233 Common Shares, held by custodians of IRAs for Mr. Hughes, Jr. and Mrs. Hughes, Jr. as to which each has investment power, 344 Common Shares held by Mrs. Hughes, Jr., 8,506 and 3,390 Common Shares, held by Mr. Hughes, Jr. as custodian for a daughter and a son, 25,692 and 17,890 Common Shares held by Mrs. Hughes, Jr. as custodian for a daughter and a son, 11,348 Common Shares held by Mr. Hughes, Jr. and Tamara Hughes Gustavson - Separate Property and 17,585 Common Shares held in the 401(k) Plan.
- The 34,710 Depository Shares include 40 and 7 Depository Shares, held by custodians of IRAs for Mr. Hughes, Jr. and Mrs. Hughes, Jr. as to which each has investment power, 11 Depository Shares held by Mrs. Hughes, Jr., 213 and 96 Depository Shares, held by Mr. Hughes, Jr. as custodian for a daughter and a son, 772 and 581 Depository Shares held by Mrs. Hughes, Jr. as custodian for a daughter and a son, 43 Depository Shares held by Mr. Hughes, Jr. and Tamara Hughes Gustavson - Separate Property and 788 Depository Shares held in the 401(k) Plan.
- (7) The 78,500 Common Shares include 6,000 Common Shares held by a custodian of an IRA for Mr. Angeloff and 70,500 Common Shares held by Mr. Angeloff as trustee of Angeloff Family Trust.

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- (8) The 13,376 Common Shares include 500 Common Shares held by Harkham Industries, Inc. (dba Jonathan Martin, Inc.), a corporation wholly owned by Mr. Harkham, 1,500 Common Shares held by Mr. Harkham as trustee of Uri Harkham Trust, 1,440 Common Shares held by a custodian of an IRA for Mr. Harkham as to which he has investment power, 4,716, 410, 210 and 600 Common Shares held by Mr. Harkham as custodian for four of his children and 4,000 Common Shares held by Mr. Harkham as trustee of Harkham Industries Profit Sharing Plan.
- The 555 Depository Shares include 256 Depository Shares held by Mr. Harkham as trustee of Uri Harkham Trust, 146 Depository Shares held by a custodian of an IRA for Mr. Harkham as to which he has investment power and 153 Depository Shares held by Mr. Harkham as custodian for a son.
- (9) The 8,910 Common Shares include 6,330 Common Shares held by Mr. and Mrs. Phelps as trustee of Phelps Family Trust, 296, 1,000 and 1,000 Common Shares held by custodians of IRAs for Mr. Phelps and 284 Common Shares held in the 401(k) Plan.
- The 605 Depository Shares include 205 Depository Shares held by Mr. and Mrs. Phelps as trustee of Phelps Family Trust, 9, 32 and 32 Depository Shares held by custodians of IRAs for Mr. Phelps and 327 Depository Shares held in the 401(k) Plan.

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(10) The 111,713 Common Shares include 7,199 Common Shares held by a custodian of an IRA for Mr. Goldberg, 4,260 Common Shares held by David Goldberg Profit Sharing Plan and 499 Common Shares held in the 401(k) Plan.

The 4,048 Depository Shares include 233 Depository Shares held by a custodian of an IRA for Mr. Goldberg, 138 Depository Shares held by David Goldberg Profit Sharing Plan and 652 Depository Shares held in the 401(k) Plan.

(11) Includes shares held of record or beneficially by members of the immediate family of executive officers of the Company, shares held by custodians of IRAs for the benefit of executive officers of the Company and shares credited to the accounts of the executive officers of the Company that are held in the 401(k) Plan.

(12) Shares held of record by Colony PSA, LLC, a limited liability company of which Mr. Barrack is a controlling member.

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The following tables set forth information as of March 27, 2001 concerning the remaining security ownership of each director of Public Storage, the chief executive officer of Public Storage, the four most highly compensated persons who were executive officers of Public Storage on December 31, 2000 and all directors and executive officers of Public Storage as a group:

| | Shares of 10% Cumulative Preferred Stock, Series A Beneficially Owned (1) | | Shares of 9.20% Cumulative Preferred Stock, Series B Beneficially Owned (1) | | Share |
|--|---|---------|---|---------|-------------------|
| | Number of Shares | Percent | Number of Shares | Percent | Cumul Serie Benef |
| B. Wayne Hughes | - | - | - | - | Number of Sh |
| Harvey Lenkin | - | - | - | - | |
| Marvin M. Lotz | - | - | - | - | |
| B. Wayne Hughes, Jr. | - | - | 400 (1) (3) | * | |
| Robert J. Abernethy | - | - | 225 (1) | * | |
| Dann V. Angeloff | - | - | - | - | |
| William C. Baker | - | - | - | - | |
| Thomas J. Barrack, Jr. | - | - | - | - | |
| Uri P. Harkham | - | - | - | - | |
| Daniel C. Staton | - | - | - | - | |
| Carl B. Phelps | - | - | - | - | |
| David Goldberg | - | - | - | - | |
| All Directors and Executive Officers as a Group (20 persons) | 4,060 (1) (2) | 0.2% | 4,625 (1) (2) (3) | 0.2% | |

| | Shares of 9.50% Cumulative Preferred Stock, Series D | Shares of 10% Cumulative Preferred Stock, Series E | Share |
|--|--|--|-------|
|--|--|--|-------|

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| | Beneficially Owned(1) | | Beneficially Owned (1) | | Beneficially Owned (1) |
|--|-----------------------|---------|------------------------|---------|------------------------|
| | Number of Shares | Percent | Number of Shares | Percent | |
| B. Wayne Hughes | - | - | - | - | - |
| Harvey Lenkin | - | - | - | - | - |
| Marvin M. Lotz | - | - | - | - | - |
| B. Wayne Hughes, Jr. | - | - | - | - | - |
| Robert J. Abernethy | - | - | - | - | - |
| Dann V. Angeloff | - | - | - | - | - |
| William C. Baker | - | - | - | - | - |
| Thomas J. Barrack, Jr. | - | - | - | - | - |
| Uri P. Harkham | - | - | - | - | - |
| Daniel C. Staton | - | - | - | - | - |
| Carl B. Phelps | - | - | - | - | - |
| David Goldberg | - | - | - | - | - |
| All Directors and Executive Officers as a Group (20 persons) | 6,800 (1) (2) | 0.6% | 13,100 (1) (2) | 0.6% | 8,000 (1) (2) |

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| | Depository Shares Each Representing 1/1,000 of a Share of 8-7/8% Cumulative Preferred Stock, Series G Beneficially Owned (1) | | Depository Shares Each Representing 1/1,000 of a Share of 8.45% Cumulative Preferred Stock, Series H Beneficially Owned(1) | | Class of Beneficially Owned (1) |
|--|--|---------|--|---------|---------------------------------|
| | Number of Shares | Percent | Number of Shares | Percent | |
| B. Wayne Hughes | - | - | - | - | - |
| Harvey Lenkin | - | - | - | - | - |
| Marvin M. Lotz | - | - | - | - | - |
| B. Wayne Hughes, Jr. | - | - | - | - | 3,204 |
| Robert J. Abernethy | - | - | - | - | - |
| Dann V. Angeloff | - | - | - | - | - |
| William C. Baker | - | - | - | - | - |
| Thomas J. Barrack, Jr. | - | - | - | - | - |
| Uri P. Harkham | - | - | - | - | - |
| Daniel C. Staton | - | - | - | - | - |
| Carl B. Phelps | - | - | - | - | - |
| David Goldberg | - | - | - | - | - |
| All Directors and Executive Officers as a Group (20 persons) | 8,600 (1) (2) | 0.1% | 8,000 (1) (2) | 0.1% | 3,204 |

* Less than 0.1%

(1) Shares of 10% Cumulative Preferred Stock, Series A, 9.20% Cumulative Preferred Stock, Series B, Adjustable Rate Cumulative Preferred Stock,

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Series C, 9.50% Cumulative Preferred Stock, Series D, 10% Cumulative Preferred Stock, Series E, 9.75% Cumulative Preferred Stock, Series F, Depositary Shares, each representing 1/1,000 of a Share of 8-7/8% Cumulative Preferred Stock, Series G, Depositary Shares, each representing 1/1,000 of Share of 8.45% Cumulative Preferred Stock, Series H, or Class B Common Stock, as applicable, beneficially owned as of March 27, 2001. Except as otherwise indicated and subject to applicable community property and similar statutes, the persons listed as beneficial owners of the shares have sole voting and investment power with respect to such shares.

- (2) Includes shares held of record or beneficially by members of the immediate family of executive officers of the Company and shares held by custodians of IRAs for the benefit of executive officers of the Company.
- (3) Shares held by Mr. Hughes, Jr. and Tamara Hughes Gustavson - Separate Property.
- (4) Includes 500 shares held by a custodian of an IRA for Mr. Goldberg and 100 shares held by David Goldberg Profit Sharing Plan.

As of March 27, 2001, the directors and executive officers of Public Storage did not own any shares of the Company's Depositary Shares Each Representing 1/1,000 of a Share of 8-5/8% Cumulative Preferred Stock, Series I, Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J, Depositary Shares Each Representing 1/1,000 of a Share of 8 1/4% Cumulative Preferred Stock, Series K, Depositary Shares Each Representing 1/1,000 of a Share of 8 1/4% Cumulative Preferred Stock, Series L, Depositary Shares Each Representing 1/1,000 of a Share of 8.75% Cumulative Preferred Stock, Series M, Depositary Shares Each Representing 1/1,000 of a Share of 8.600% Cumulative Preferred Stock, Series Q, Equity Stock, Series AA or Equity Stock, Series AAA.

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CERTAIN RELATED TRANSACTIONS

The following are the principal relationships between Public Storage and the Partnership:

Joint Venture Interests. Public Storage owns a joint venture interest (ranging from approximately 29% to 50%) in 32 of the Properties and in the interest in PSBP. Under the joint ventures, certain special allocation rules apply and Public Storage has the right to compel the sale of the Properties. See Note (1) to the Notes to Consolidated Financial Statements of the Partnership. (Appendix E).

General Partners' Interest. Public Storage and Hughes are general partners of the Partnership. Public Storage receives incentive distributions equal to 10% of the Partnership's cash flow and has a subordinated interest in proceeds from sales or financings of the Properties (15% of such proceeds so long as limited partners have received sale or financing distributions equal to their capital contributions plus any deficiency in a simple 8% annual return). In 1998, 1999 and 2000 and the first nine months of 2001, the general partners received from the Partnership \$399,000, \$599,000, \$569,000 and \$325,000, respectively, in respect of their incentive distributions. The general partners also have a 1% interest in the Partnership in respect of their capital contributions and participate in Partnership distributions in proportion to their interest in the Partnership.

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Property Management. The Properties are managed by Public Storage under a management agreement under which Public Storage receives 6% of gross revenues from operations of the Properties. In 1998, 1999 and 2000 and the first nine months of 2001, Public Storage received \$855,000, \$878,000, \$906,000 and \$724,000, respectively, for managing the Properties.

Limited Partner Interests. Of the 148,000 outstanding Partnership units, 92,850 units (approximately 63%) are beneficially owned by Public Storage. Public Storage participates in Partnership distributions on the same terms as other holders of units in respect of units owned by Public Storage.

PSBP. The Partnership owns a 1% interest in PSBP and an additional 2% interest held jointly with Public Storage. Public Storage has a significant ownership interest in PSBP.

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DESCRIPTION OF PARTNERSHIP'S PROPERTIES

The Partnership and Public Storage jointly own 32 of the 33 Properties and the remaining one is owned by the Partnership alone. All of the Properties are self-storage facilities, which are designed to offer accessible storage space for personal and business use at a relatively low cost. A user rents a fully enclosed space which is for the user's exclusive use and to which only the user has access on an unrestricted basis during business hours. On-site operation is the responsibility of resident managers who are supervised by area managers. Some self-storage facilities include rentable uncovered parking areas for vehicle storage. Leases may be on a long-term or short-term basis, although typically spaces are rented on a month-to-month basis. Rental rates vary according to the location of the property and the size of the storage space which ranges generally from 25 to 400 square feet.

Users of space in self-storage facilities both individuals and large and small businesses. Individuals usually employ this space for storage of, among other things, furniture, household appliances, personal belongings, motor vehicles, boats, campers, motorcycles and other household goods. Businesses normally employ this space for storage of excess inventory, business records, seasonal goods, equipment and fixtures.

The following table sets forth information as of September 30, 2001 about the Properties.

| Location | Net Rentable Square Feet | Number of Spaces | Date of Acquisition |
|---------------------|-----------------------------|---------------------|------------------------|
| California | | | |
| Brea | 82,400 | 773 | 02/28/86 |
| E. Imperial Highway | | | |
| Costa Mesa | 43,500 | 495 | 02/21/86 |
| Pomona Ave. | | | |
| Sun Valley | 47,500 | 482 | 01/08/86 |
| Sheldon St. | | | |
| Westlake Village | 36,000 | 303 | 05/09/86 |
| W. Agoura Rd. | | | |
| Colorado | | | |

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| | | | |
|---------------------------------------|--------|-----|----------|
| Colorado Springs Hollow Tree Ct. | 45,000 | 432 | 07/15/86 |
| Colorado Springs N. Sinton Rd. | 58,800 | 578 | 02/19/86 |
| Denver Leetsdale Dr. | 32,300 | 235 | 12/06/85 |
| Florida Jacksonville Wiley Rd. | 31,800 | 325 | 03/12/86 |
| Illinois Skokie McCormick Blvd. | 49,500 | 458 | 02/27/86 |
| Massachusetts Brockton Main St. | 49,800 | 430 | 12/03/85 |

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| Location | Net Rentable Square Feet | Number of Spaces | Date of Acquisition |
|--|-----------------------------|---------------------|------------------------|
| Missouri St. Louis Forder Rd. | 43,900 | 382 | 03/28/86 |
| Nevada Las Vegas S. Martin Luther King Blvd. | 47,300 | 435 | 01/17/86 |
| Reno Telegraph St. | 81,000 | 570 | 04/01/86 |
| New Jersey Bordentown Route 130 | 30,500 | 290 | 01/16/86 |
| Eatontown Highway 35 | 82,400 | 897 | 12/31/85 |
| Mapleshade Rudderow Ave. | 55,400 | 499 | 01/16/86 |
| New York Amherst Niagara Falls Blvd. | 32,000 | 299 | 12/31/85 |
| Oklahoma Oklahoma City N. Pennsylvania Ave. | 35,000 | 278 | 02/20/86 |
| Oklahoma City NW 39th Expressway | 32,700 | 276 | 02/28/86 |
| Pennsylvania Whitehall MacArthur Rd. | 54,300 | 532 | 12/03/85 |

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| | | | |
|--------------------|--------|-----|----------|
| Texas | | | |
| Dallas | 53,200 | 453 | 10/04/85 |
| Alvin St. | | | |
| Dallas | 65,400 | 665 | 10/04/85 |
| S. Westmoreland | | | |
| Ft. Worth | 52,500 | 500 | 10/04/85 |
| Cockrell Ave. | | | |
| Ft. Worth | 58,600 | 588 | 10/04/85 |
| E. Seminary Dr. | | | |
| Ft. Worth | 54,200 | 524 | 10/04/85 |
| W. Beach St. | | | |
| San Antonio | 53,000 | 513 | 10/04/85 |
| Callaghan Rd. | | | |
| San Antonio | 53,100 | 492 | 10/04/85 |
| Fredericksburg Rd. | | | |
| San Antonio (1) | 92,000 | 801 | 10/04/85 |
| Hackberry St. | | | |

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| Location | Net Rentable Square Feet | Number of Spaces | Date of Acquisition |
|------------------|-----------------------------|---------------------|------------------------|
| San Antonio | 56,700 | 567 | 10/04/85 |
| Wetmore Rd. | | | |
| San Antonio | 48,700 | 530 | 10/04/85 |
| Zarzamora Rd. | | | |
| Utah | | | |
| Kearns | 48,600 | 474 | 12/18/85 |
| W. Sams Blvd. | | | |
| Washington | | | |
| Everett | 83,000 | 946 | 11/07/85 |
| Evergreen Way | | | |
| Seattle | 133,400 | 1,473 | 11/07/85 |
| Empire Way South | | | |

 (1) In 2000, the Property was expanded at a cost of \$1,794,000, increasing the size by 273 spaces and 38,000 square feet.

The Partnership has no Property interest that involves 10% or more of the Partnership's total assets or gross revenues.

The weighted average occupancy level for the Properties was 90% in the nine months ended September 30, 2001 compared to 92% in the same period in 2000. The annual average realized rent per square foot for the Properties was \$9.78 in the nine months ended September 30, 2001, compared to \$9.08 in the same period in 2000.

As of the date of this statement, each of the Properties is generating sufficient revenues to cover its operating expenses. None of the Properties is subject to any material mortgage, lien, or any encumbrance other than liens for

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taxes and assessments not yet due or payable, utility easements or other immaterial liens or encumbrances. Each of the Properties will continue to be used for its current purpose. At present, the Partnership has no plans for any material renovation or improvement of its properties. However, the Partnership budgets for regular maintenance, repair and upgrade to the Properties. The Partnership believes each of the Properties is adequately covered by insurance.

Competition exists in all of the market areas in which the Properties are located, and the barriers to entry are relatively low for competitors with the necessary capital. However, the Partnership believes that the current overall demand for space in self-storage facilities is strong, and as reflected in the table below the overall performance of the Properties has generally improved. The Properties are, and will continue after the merger to be, operated as part of the "Public Storage" system by Public Storage, the largest operator of self-storage facilities in the United States.

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Set forth below is a schedule showing the overall occupancy rate and realized rent for the Properties for the periods indicated:

| | Years ended December 31, | | | Nine months ended September 30, | |
|---|-----------------------------|--------|--------|------------------------------------|--------|
| | 1998 | 1999 | 2000 | 2000 | 2001 |
| Weighted average occupancy level | 92% | 92% | 91% | 92% | 90% |
| Annual realized rent per occupied square foot (1) | \$8.64 | \$8.89 | \$9.16 | \$9.08 | \$9.78 |

(1) Realized rent per occupied square foot represents the actual revenue earned per occupied square foot. Management believes this is a more relevant measure than the posted rental rates, since posted rates can be discounted through the use of promotions. Includes administrative and late fees.

The Partnership also owns a 1% interest in PSBP alone and an additional 2% interest jointly with Public Storage.

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DESCRIPTION OF PUBLIC STORAGE'S PROPERTIES

At September 30, 2001, Public Storage had equity interests (through direct ownership, as well as general and limited partnership interests in 1,378 storage facilities (1,264 of which were wholly-owned) located in 37 states. Public Storage also has an interest in PS Business Parks, Inc., a REIT that owns and operates commercial properties. None of Public Storage's properties involves 10% or more of Public Storage's total assets or gross revenues.

For a general description of self-storage facilities, see "Description of Partnership Properties."

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The following table reflects the geographic diversification of Public Storage's self-storage facilities:

| At September 30, 2001 | | |
|--------------------------|-------------------------|--|
| | Number of Facilities(1) | Net Rentable Square Feet (in thousands) (1) |
| California: | | |
| Southern | 160 | 10,306 |
| Northern | 138 | 7,704 |
| Texas | 163 | 10,922 |
| Florida | 141 | 8,459 |
| Illinois | 94 | 5,816 |
| Georgia | 62 | 3,626 |
| Colorado | 51 | 3,199 |
| Washington | 39 | 2,533 |
| New Jersey | 38 | 2,244 |
| Virginia | 37 | 2,247 |
| Missouri | 37 | 2,128 |
| Maryland | 37 | 2,097 |
| New York | 36 | 2,162 |
| Ohio | 31 | 1,899 |
| Oregon | 25 | 1,171 |
| Tennessee | 25 | 1,494 |
| South Carolina | 24 | 1,082 |
| North Carolina | 24 | 1,266 |
| Kansas | 22 | 1,278 |
| Nevada | 22 | 1,409 |
| Alabama | 22 | 895 |
| Pennsylvania | 20 | 1,360 |
| Indiana | 18 | 1,050 |
| Other states (15 states) | 112 | 6,770 |
| Totals | 1,378 | 83,117 |

As of the date of this statement, each of Public Storage's properties is generating sufficient revenues to cover its operating expenses other than properties in the initial lease-up stage. As of September 30, 2001, only 24 of Public Storage's properties were subject to any material mortgage, lien, or any encumbrance other than liens for taxes and assessments not yet due or payable, utility easements or other immaterial liens or encumbrances. These 24 properties were encumbered by mortgages in the aggregate amount of \$24,558,000, bearing interest at rates ranging from 7.134% to 10.75% per year and maturing between May 2004 and September 2028. Each of Public Storage's properties will continue to be used for its current purpose. At present, Public Storage has no plans for any material renovation or improvement of its properties. However, Public Storage budgets for regular maintenance, repair and upgrade to its properties. Public Storage believes each of its properties is adequately covered by insurance.

Competition exists in substantially all of the market areas in which Public Storage's storage facilities and commercial properties are located, and the barriers to entry are relatively low for competitors with the necessary capital. However, Public Storage believes that the current overall demand for self-storage facilities commercial space is strong, and as reflected in the table below the overall performance of Public Storage's self-storage facilities

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and commercial properties has generally improved. More than 10% of Public Storage's net rentable square feet of space are located in each of the Southern California, Texas and Florida market areas. Public Storage's self-storage facilities are operated as part of the "Public Storage" system. Public Storage is the largest operator of self-storage facilities in the United States.

Set forth below is a schedule showing the overall occupancy rate and realized rent for the 945 of the 1,378 self-storage facilities in which Public Storage had an interest at September 30, 2001. These 945 facilities reflect a consistent pool of properties that have been operated under the Public Storage name at a stabilized level since January 1, 1994.

| | Years ended December 31, | | | Ni |
|---|-----------------------------|---------|---------|-------|
| | 1998 | 1999 | 2000 | |
| Weighted average occupancy level (1) | 92.5% | 92.5% | 92.3% | 92. |
| Annual realized rent per occupied square foot (1) (2) | \$9.84 | \$10.26 | \$10.73 | \$10. |

(1) Properties owned throughout the periods.

(2) Realized annual rent per square foot is computed by annualizing rental income including late charges and administrative fees divided by weighted average occupied square footage for the period.

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DISTRIBUTIONS AND PRICE RANGE OF PUBLIC STORAGE COMMON STOCK

The Public Storage common stock has been listed on the NYSE since October 19, 1984. The following table sets forth the distributions paid per share on the Public Storage common stock in the periods indicated below and the reported high and low sales prices on the NYSE composite tape for the applicable periods.

| Calendar Periods | High | Low | Distributions Paid (1) |
|-------------------------------------|---------|---------|------------------------|
| 2000: | | | |
| First quarter | \$24.81 | \$20.88 | \$0.22 |
| Second quarter | 24.88 | 21.25 | 0.22 |
| Third quarter | 26.94 | 23.19 | 0.82(2) |
| Fourth quarter | 24.88 | 21.13 | 0.22 |
| 2001: | | | |
| First quarter | 26.75 | 24.13 | 0.22 |
| Second quarter | 30.20 | 26.06 | 0.22 |
| Third quarter | 34.85 | 29.15 | 0.80(3) |
| Fourth quarter | 35.15 | 32.48 | 0.45 |
| 2002: | | | |
| First quarter (through _____, 2002) | | | (4) |

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- (1) For GAAP purposes, all distributions were from investment income.
- (2) Include a special distribution of \$0.60 per share.
- (3) Include a special distribution of \$0.35 per share.
- (4) Distribution of \$0.45 per share payable on March 29, 2002 to shareholders of record on March 15, 2002.

As of September 30, 2001, there were approximately 20,465 record holders of Public Storage common stock. On _____, 2002, the last full trading day prior to the date of this statement, the closing price of the Public Storage common stock was \$_____.

Holders of Public Storage common stock are entitled to receive distributions when, as and if declared by the board of directors out of any funds legally available for that purpose. Public Storage, as a REIT, is required to distribute annually at least 90% of its "REIT taxable income," which, as defined by the relevant tax statutes and regulations, is generally equivalent to net taxable ordinary income. Under certain circumstances, Public Storage can rectify a failure to meet this distribution requirement by paying dividends after the close of a particular taxable year. See "Federal Income Tax Considerations - General Tax Treatment of Public Storage."

Public Storage's revolving credit facility with a commercial bank restricts Public Storage's ability to pay distributions in excess of "Funds from Operations" for the prior four fiscal quarters less scheduled principal payments and less capital expenditures. Funds from Operations is defined in the loan agreement generally as net income before gain on sale of real estate, extraordinary loss on early retirement of debt and deductions for depreciation, amortization and non-cash charges. Also, unless full dividends on Public Storage's preferred stock have been paid for all past dividend periods, no dividends may be paid on Public Storage common stock, except in certain instances.

DISTRIBUTIONS AND MARKET PRICES OF PARTNERSHIP UNITS

Partnership Distributions. The following table sets forth the distributions paid per Partnership unit (original purchase price \$500) in the periods indicated below:

| | Distribution |
|----------------|--------------|
| 2000: | |
| First Quarter | \$ 6.00 |
| Second Quarter | 6.00 |
| Third Quarter | 15.93 (1) |
| Fourth Quarter | 6.30 |
| 2001: | |
| First Quarter | 6.30 |
| Second Quarter | 6.62 |
| Third Quarter | 6.62 |
| Fourth Quarter | 12.64 (2) |

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-
- (1) Includes a special distribution of approximately \$9.63 per unit. See note (5) under "Summary - Summary Financial Information."
 - (2) Includes a special distribution of approximately \$6.02 per unit. See Note (5) under "Summary - Summary Financial Information."

Holders of Partnership Units. As of December 31, 2001, there were approximately 2,606 record holders of Partnership units.

Sales of Partnership Units. The Partnership units are not listed on any national securities exchange or quoted in the over the counter market, and there is no established public trading market for the units. Secondary sales activity for the units has been limited and sporadic. The general partners monitor transfers of the units (1) because the admission of the transferee as a substitute limited partner requires the consent of the general partners under the partnership agreement, (2) in order to track compliance with safe harbor provisions to avoid treatment as a "publicly traded partnership" for tax purposes and (3) because Public Storage has purchased units. However, the general partners do not have information regarding the prices at which all secondary sales transactions in the units have been effectuated. Various organizations offer to purchase and sell limited partnership interests (such as the units) in secondary sales transactions. Various publications such as The Stanger Report summarize and report information (on a monthly, bimonthly or less frequent basis) regarding secondary sales transactions in limited partnership interests (including the units), including the prices at which such secondary sales transactions are effectuated.

The general partners estimate, based solely on the transfer records of the Partnership and the Partnership's transfer agent, that the number of Partnership units transferred in sales transactions (i.e., excluding transactions believed to be between related parties, family members or the same beneficial owner) was as follows:

| Year | Number of Total Units Transferred(1) | Percentage of Units Outstanding | Number of Transactions(1) |
|------|--------------------------------------|---------------------------------|---------------------------|
| 1999 | 1,390(2) | 0.94% | 50(2) |
| 2000 | 858(3) | 0.58% | 34(3) |
| 2001 | 1,925(4) | 1.30% | 11(4) |

-
- (1) Transfers are recorded quarterly on the Partnership's records, as of the first day following each calendar quarter.

- (2) In 1999, the Company purchased 422 units in 19 transactions at \$355 per unit.
- (3) In 2000, the Company purchased 730 units in 23 transactions at \$355 per unit.
- (4) In 2001, the Company purchased 866 units in 54 transactions: 484 units at \$355 per unit and 402 units at \$381 per unit. On January 1, 2002, the Company purchased 41 units in 6 transactions at \$381 per unit.

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All of the purchases of Partnership units described in notes (2), (3), (4) and (5) above were acquired directly from limited partners or through secondary firms of the type described below under "Information From The Stanger Report Regarding Sales Transactions."

Information Obtained from Dean Witter Regarding Sales Transactions. Dean Witter Reynolds Inc. ("Dean Witter") was the dealer-manager for the Partnership's initial offering of Units. Set forth below is information obtained from Dean Witter on the high and low sale price per Unit for sale transactions during each quarter of 2000 and 2001:

| | Per Unit Transaction Price (1)(2) | | Number of Sales(2) | Number of Units Sold(2) |
|--------------------|-----------------------------------|----------|-----------------------|----------------------------|
| | High | Low | | |
| 2000 | | | | |
| First Quarter | \$323.51 | \$323.51 | 1 | 30 |
| Second Quarter | - | - | - | - |
| Third Quarter | - | - | - | - |
| Fourth Quarter | - | - | - | - |
| 2001 | | | | |
| First Quarter | - | - | - | - |
| Second Quarter | - | - | - | - |
| Third Quarter (3) | - | - | - | - |
| Fourth Quarter (3) | - | - | - | - |

(1) The original purchase price was \$500 per Unit.

(2) This information was compiled by Dean Witter in the ordinary course based upon reports made of negotiated sales. The price information represents the prices reported to have been paid by the buyers to the sellers net of commissions.

(3) Dean Witter did not compile information during these quarters.

Information From The Stanger Report Regarding Sales Transactions. The information set forth below is extracted from sections of the Spring 1999, Summer 1999, September 30, 1999, December 31, 1999, March 31, 2000, June 30, 2000, September 30, 2000, December 30, 2000, March 31, 2001, June 30, 2001 and Third Quarter 2001 issues of The Stanger Report captioned "Limited Partnership Secondary-Market Prices" and additional information provided to the General Partners by Robert A. Stanger & Co., Inc. ("Stanger"). Those publications (the "Stanger Publications") and the additional information provided by Stanger summarized secondary market prices for public limited partnerships based on actual transactions during the reporting periods listed on the tables below. The following secondary-market firms provided high and low price data to The Stanger Report for some or all of the reporting periods: A-1 Partnership Service Network - (800) 483-0776, (727) 596-9898; American Partnership Board - (800) 736-9797, (480) 368-6400; DCC Securities Corp. - (800) 945-0440, (212) 370-1090; Fox & Henry, Inc. - (630) 325-4445; Frain Asset Management - (800) 654-6110; MacKenzie-Patterson Securities - (800) 854-8357, (510) 631-9100; National Partnership Exchange - (800) 356-2739, (813) 636-9299; Newport Financial corp. - (877) 552-3200; New York Partnership Exchange - (800) 444-7357, (941) 955-8816; Northcoast Securities - (561) 496-5387; Pacific Partnership Group - (800) 727-7244; and The Partnership Marketing Company - (888) 824-8600, (707) 824-8600.

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The information regarding sale transactions in Partnership units from the Stanger Publications and Stanger is as follows:

| Reporting period ----- | Per Unit Transaction Price(1) ----- | | No. of Un ----- |
|---------------------------|--|--------------|--------------------|
| | High ----- | Low ----- | |
| 1999 | | | |
| January 1 - March 31 | \$325 | \$285 | 3 |
| April 1 - June 30 | 285 | 285 | 2 |
| July 1 - September 30 | -- | -- | -- |
| October 1 - December 31 | 325 | 195 | 2 |
| 2000 | | | |
| January 1 - March 31 | -- | -- | -- |
| April 1 - June 30 | 448 | 350 | 1 |
| July 1 - September 30 | 355 | 297 | 5 |
| October 1 - December 31 | 451 | 307 | 19 |
| 2001 | | | |
| January 1 - March 31 | 367 | 367 | 9 |
| April 1 - June 30 | -- | -- | -- |
| July 1 - September 30 | -- | -- | -- |
| October 1 - December 31 | -- | -- | -- |

(1) The original purchase price was \$500 per Unit. The General Partners do not know whether the transaction prices shown are before or after commissions.

(2) The General Partners do not know the number of transactions.

The information from The Stanger Report contained above is provided without verification by the General Partners and is subject to the following qualifications in The Stanger Report: "Limited partnerships are designed as illiquid, long-term investments. Secondary-market prices generally do not reflect the current value of partnership assets, nor are they indicative of total return since prior cash distributions and tax benefits received by the original investor are not reflected in the price. Transaction prices are not verified by Robert A. Stanger & Co."

DESCRIPTION OF PUBLIC STORAGE CAPITAL STOCK

Public Storage is authorized to issue 200,000,000 shares of Public Storage common stock, par value \$.10 per share, 7,000,000 shares of Public Storage class B common stock, par value \$.10 per share, 50,000,000 shares of preferred stock, par value \$.01 per share and 200,000,000 shares of equity stock, par value \$.01 per share. At September 30, 2001, Public Storage had outstanding 113,636,305 shares of Public Storage common stock (excluding shares issuable upon conversion of convertible securities and shares subject to

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options), 7,000,000 shares of Class B Common Stock, 11,161,500 shares of preferred stock (of which 55,500 shares were represented by 55,500,000 depository shares) and 4,523,220.338 shares of equity stock (of which 8,676.102 shares were represented by 8,676,102 depository shares).

Common Stock

The following description of Public Storage common stock sets forth certain general terms and provisions of Public Storage common stock. The statements below describing Public Storage common stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of the Public Storage's articles of incorporation and bylaws.

Public Storage shareholders will be entitled to receive dividends when, as and if declared by Public Storage's Board of Directors, out of funds legally available therefor. Payment and declaration of dividends on Public Storage common stock and purchases of shares thereof by Public Storage will be subject to certain restrictions if Public Storage fails to pay dividends on outstanding preferred stock. See "- Preferred Stock." Upon any liquidation, dissolution or winding up of Public Storage, holders of Public Storage common stock will be entitled to share equally and ratably in any assets available for distribution to them, after payment or provision for payment of the debts and other liabilities of Public Storage and the preferential amounts owing with respect to any outstanding preferred stock. Holders of Public Storage common stock have no preemptive rights, which means they have no right to acquire any additional shares of Public Storage common stock that may be issued by Public Storage at a subsequent date.

Each outstanding share of Public Storage common stock entitles the holder to one vote on all matters presented to Public Storage shareholders for a vote, with the exception that Public Storage shareholders have cumulative voting rights with respect to the election of the Board of Directors, in accordance with California law. Cumulative voting entitles each Public Storage shareholder to cast as many votes as there are directors to be elected multiplied by the number of shares registered in his or her name. A Public Storage shareholder may cumulate the votes for directors by casting all of the votes for one candidate or by distributing the votes among as many candidates as the Public Storage shareholder chooses. Public Storage shareholders have no preemptive or other rights to subscribe for or purchase additional shares of Public Storage common stock. All outstanding shares of Public Storage common stock are fully paid and nonassessable.

Ownership Limitations

In a series of transactions among Public Storage Management, Inc. and its affiliates (collectively, "PSMI"), culminating in the November 16, 1995 merger of PSMI into Storage Equities, Inc., Storage Equities became self-administered and self-managed, acquired substantially all of PSMI's United States real estate interests and was renamed "Public Storage, Inc."

For Public Storage to qualify as a REIT under the Code, no more than 50% in value of its outstanding shares of capital stock may be owned, directly or constructively under the applicable attribution rules of the Code, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year. In order to maintain its qualification as a REIT, Public Storage's articles of incorporation and bylaws provide certain restrictions on the shares of capital stock that any Public Storage shareholder may own.

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Public Storage's articles of incorporation and bylaws provide that, subject to certain exceptions, no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, more than (A) 2.0% of the outstanding shares of all common stock of Public Storage, or (B) 9.9% of the outstanding shares of each class or series of shares of preferred stock or equity stock of Public Storage. The articles of incorporation and bylaws provide, however, that no person shall be deemed to exceed the ownership limit solely by reason of the beneficial ownership of shares of any class of stock to the extent that such shares of stock were beneficially owned by such person (including the Hughes family) at the time of the PSMI Merger. This ownership limitation was established in order to assist in preserving Public Storage's REIT status in view of the Hughes family's substantial ownership interest in Public Storage. See "Federal Income Tax Considerations - General Tax Treatment of Public Storage."

Public Storage's Board of Directors, in its sole and absolute discretion, may grant an exception to the ownership limits to any person so requesting, so long as (A) the Board of Directors has determined that, after giving effect to (x) an acquisition by such person of beneficial ownership (within the meaning of the Code) of the maximum amount of capital stock of Public Storage permitted as a result of the exception to be granted and (y) assuming that the four other persons who would be treated as "individuals" for the purposes of Section 542(a)(2) of the Code and who would beneficially own the largest amounts of stock of Public Storage (determined by value) beneficially own the maximum amount of capital stock of Public Storage permitted under the ownership limits (or any waivers of the ownership limits granted with respect to such persons), Public Storage would not be "closely held" within the meaning of Section 856(h) of the Code and would not otherwise fail to qualify as a REIT, and (B) such person provides to Public Storage's Board of Directors such representations and undertakings as the Board of Directors may require. Notwithstanding any of the foregoing ownership limits, no holder may own or acquire, either directly, indirectly or constructively under the applicable attribution rules of the Code, any shares of any class of Public Storage's capital stock if such ownership or acquisition (i) would cause more than 50% in value of Public Storage's outstanding capital stock to be owned, either directly or constructively, under the applicable attribution rules of the Code, by five or fewer individuals (as defined in the Code to include certain tax-exempt entities, other than, in general, qualified domestic pension funds), (ii) would result in Public Storage's stock being beneficially owned by less than 100 persons (determined without reference to any rules of attribution), or (iii) would otherwise result in Public Storage's failing to qualify as a REIT.

Public Storage's articles of incorporation and bylaws provide that, if any holder of Public Storage's capital stock purports to transfer shares to a person or there is a change in the capital structure of Public Storage and either the transfer or the change in capital structure would result in Public Storage failing to qualify as a REIT, or such transfer or the change in capital structure would cause the transferee to hold shares in excess of the applicable ownership limit, then the stock being transferred (or in the case of an event other than a transfer, the stock beneficially owned) which would cause one or more of the restrictions on ownership or transfer to be violated shall be automatically transferred to a trust for the benefit of a designated charitable beneficiary. The purported transferee of such shares shall have no right to receive dividends or other distributions with respect to such shares and shall have no right to vote such shares. Any dividends or other distributions paid to such purported transferee prior to the discovery by Public Storage that the shares have been transferred to a trust shall be paid to the trustee of the trust for the benefit of the charitable beneficiary upon demand. The trustee of the trust will have all rights to dividends with respect to shares of stock held in trust, which rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividends or distributions paid over to the trustee

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will be held in trust for the charitable beneficiary. The trustee shall designate a transferee of such stock so long as such shares of stock would not violate the restrictions on ownership or transfer in the Public Storage articles of incorporation or bylaws in the hands of such designated transferee. Upon the sale of such shares, the purported transferee shall receive the lesser of (A) (i) the price per share such purported transferee paid for the stock in the purported transfer that resulted in the transfer of the shares to the trust, or (ii) if the transfer or other event that resulted in the transfer of the shares of the trust was not a transaction in which the purported transferee gave full value for such shares, a price per share equal to the market price on the date of the purported transfer or other event that resulted in the transfer of the shares to the trust and (B) the price per share received by the trustee from the sale or other disposition of the shares held in the trust.

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Class B Common Stock

The Public Storage class B common stock:

(1) Participates in distributions (other than liquidating distributions) at the rate of 97% of the per share distributions on the Public Storage common stock, provided that cumulative distributions of at least \$.22 per quarter (beginning with the fourth quarter of 1995) per share have been paid on the Public Storage common stock;

(2) Does not participate in liquidating distributions;

(3) Is not entitled to vote (except as expressly required by California law); and

(4) Will automatically convert into Public Storage common stock, on a share for share basis, upon the later to occur of funds from operations per common share aggregating \$3.00 during any period of four consecutive calendar quarters or January 1, 2003.

For these purposes:

(1) Funds from operations means net income (loss) (computed in accordance with GAAP) before (i) gain (loss) on early extinguishment of debt, (ii) minority interest in income and (iii) gain (loss) on disposition of real estate, adjusted as follows: (i) plus depreciation and amortization (including Public Storage's pro-rata share of depreciation and amortization of unconsolidated equity interests and amortization of assets acquired in the PSMI Merger, including property management agreements and goodwill), and (ii) less funds from operations attributable to minority interest. Funds from operations is a supplemental performance measure for equity REITs as defined by the National Association of Real Estate Investment Trusts, Inc. This definition does not specifically address the treatment of minority interest in the determination of funds from operations or the treatment of the amortization of property management agreements and goodwill. In the case of Public Storage, funds from operations represents amounts attributable to its shareholders after deducting amounts attributable to the minority interests and before deductions for the amortization of property management agreements and goodwill. Funds from operations does not take into consideration scheduled principal payments on debt, capital improvements, distributions and other obligations of Public Storage. Accordingly, funds from operations is not a substitute for Public Storage's cash flow or net income as a measure of its liquidity or operating performance or ability to pay distributions.

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(2) Funds from operations per Common Share means funds from operations less preferred stock dividends (less dividends on the preferred stock and the equity stock) divided by the outstanding weighted average shares of Public Storage common stock assuming conversion of all outstanding convertible securities and the Public Storage class B common stock.

Preferred Stock

Public Storage is authorized to issue 50,000,000 shares of preferred stock, \$.01 par value per share. Public Storage's articles of incorporation provide that the preferred stock may be issued from time to time in one or more series and give the Board of Directors broad authority to fix the dividend and distribution rights, conversion and voting rights, if any, redemption provisions and liquidation preferences of each series of preferred stock.

At September 30, 2001, Public Storage had 14 series of senior preferred stock outstanding and had reserved for issuance, upon conversion of preferred units in an operating partnership, an additional two series. In all respects, each of the series of senior preferred stock ranks on a parity with each other. Each of the series of senior preferred stock: (1) has a stated value of \$25 per share, (2) in preference to the holders of shares of the common stock and any other capital stock ranking junior to the senior preferred stock as to payment of dividends, provides for cumulative quarterly dividends calculated as a percentage of the stated value (ranging from 8% to 10% per year in the case of the 13 series of fixed rate senior preferred stock and a rate adjustable quarterly ranging from 6.75% to 10.75% per year in the case of a series of adjustable rate senior preferred stock) and (3) is subject to redemption, in

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whole or in part, at the option of Public Storage at a cash redemption price of \$25 per share, plus accrued and unpaid dividends (on and after June 30, 1999 in the case of the adjustable rate senior preferred stock and on or after various dates between January 31, 2001 and September 28, 2006 in the case of the series of fixed rate senior preferred stock).

In the event of any voluntary or involuntary liquidation, dissolution or winding up of Public Storage, the holders of each of the series of senior preferred stock will be entitled to receive out of Public Storage's assets available for distribution to stockholders, before any distribution of assets is made to holders of Public Storage common stock or any other shares of capital stock ranking as to such distributions junior to the senior preferred stock, liquidating distributions in the amount or equivalent amount of \$25 per share, plus all accrued and unpaid dividends.

Except as expressly required by law and in certain other limited circumstances, the holders of the senior preferred stock are not entitled to vote. The consent of holders of at least 66-2/3% of the outstanding shares of the senior preferred stock (and any other series of preferred stock ranking on a parity therewith), voting as a single class, is required to authorize another class of shares senior to such preferred stock.

Equity Stock

Public Storage is authorized to issue 200,000,000 shares of equity stock, \$.01 par value per share. At September 30, 2001, Public Storage had 4,523,220.338 outstanding shares of equity stock (of which 8,676.102 shares were represented by 8,676,102 depositary shares), which rank on a parity with the Public Storage common stock. Public Storage's articles of incorporation provide

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that the equity stock may be issued from time to time in one or more series and give the Board of Directors broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of equity stock. Holders of equity stock have no preemptive rights. The shares of equity stock will be, when issued, fully paid and nonassessable.

Effects of Issuance of Capital Stock

The issuance of Public Storage common stock and the issuance of preferred stock or equity stock with special voting rights could be used to deter attempts by a single shareholder or group of shareholders to obtain control of Public Storage in transactions not approved by Public Storage's Board of Directors. Public Storage has no intention to issue Public Storage common stock or the preferred stock or equity stock for such purposes.

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FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes the material federal income tax considerations that are generally applicable to the public limited partners as a result of the merger and as a result of the subsequent ownership and disposition of shares of Public Storage common stock for limited partners that do not make a cash election. Because this summary only addresses the federal income tax consequences that generally apply to all limited partners, 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 consequences 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;
- (3) This summary does not address state, local or foreign tax considerations;
- (4) This summary concerning Public Storage common shareholders deals only with those shareholders that hold common shares as "capital assets," within the meaning of Section 1221 of the Internal Revenue 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 own tax advisor to determine the effect of the merger and acquiring, owning and disposing of Public Storage common shares in your individual tax situation, including any state, local or foreign tax consequences.

The information in this section is based on the current Internal Revenue Code, current, temporary and proposed treasury regulations, the legislative history of the Internal Revenue Code, current administrative interpretations and practices of the Internal Revenue Service, including its practices and policies as reflected in private letter rulings, which are not

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binding on the Internal Revenue Service, and existing court decisions. 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," Public Storage has not obtained any rulings from the Internal Revenue Service concerning the tax treatment of the matters discussed below. Thus, it is possible that the Internal Revenue Service could challenge the statements in this discussion, which do not bind the Internal Revenue Service or the courts, and that a court could agree with the Internal Revenue Service.

Opinion of Counsel

A. Timothy Scott, tax counsel and senior vice president of Public Storage, has reviewed the following discussion and is of the opinion that this discussion fairly summarizes the material federal income tax considerations to the public limited partners as a result of the merger and as a result of the subsequent ownership of Public Storage common stock for limited partners that do not make a cash election, and that Public Storage is organized and operated so as to meet the requirements for qualification as a REIT. As is noted below, Public Storage's qualification and taxation as a REIT depends upon both Public Storage's satisfaction in the past, and Public Storage's ability to meet on a continuing basis in the future, through actual annual operating and other results, the various requirements under the Code with regard to, among other things, the sources of its gross income, the lack of "C" corporation earnings and profits, the composition of its assets, the levels of distributions to shareholders, and the diversity of its stock ownership. Tax counsel has relied upon representations of management with respect to these matters and has not reviewed or audited, and will not review or audit, compliance with these requirements and does not express an opinion about those representations.

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Accordingly, no assurance can be given that Public Storage has satisfied or will satisfy the requirements under the Code for qualification and taxation as a REIT for any given taxable year. The opinion is not binding upon the IRS or the courts, and there can be no assurance that the IRS would not seek to assert a contrary position. Also, there cannot be any assurance that future legislative, judicial or administrative changes (which could be retroactive in effect) will not adversely affect the conclusions reached in the opinion or the discussion set forth below. Finally, the opinion is expressly limited to the specific conclusions described in the first sentence of this section and does not purport to address any other federal, state, local or foreign tax consequences that may result from the merger or any other transaction.

The Merger

The merger will be treated for federal income tax purposes as a taxable sale of the Partnership Units held by public limited partners, both for limited partners electing to receive cash and for those electing to receive Public Storage common stock. Taxable public limited partners will be taxed on the difference between the adjusted basis of their units and the amount of cash received or the fair market value of the Public Storage common stock received. Public Storage estimates that taxable public limited partners who acquired their units in the original offering will recognize a capital gain of approximately \$320 per unit as a result of the merger (assuming that the merger is effective as of the end of the first quarter of 2002), a portion of which may be subject to tax as unrecaptured Section 1250 gain. The particular tax consequences of the merger for a public limited partner will depend upon a number of factors related to his or her tax situation, including the tax basis of the limited partner's

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units, and the tax impact could be quite different for public limited partners who acquired their units after the original offering.

To the extent that a taxable public limited partner recognizes a capital loss as a result of the merger, the loss generally can be applied to offset capital gain from other sources. Individuals may use capital losses in excess of capital gains to offset up to \$3,000 of ordinary income in any single year (\$1,500 for a married individual filing a separate return). Any capital losses that are not used currently can be carried forward for use in subsequent years. A corporation's capital losses in excess of current capital gains generally may be carried back three years, with any remaining unused portion available to be carried forward for five years.

The merger is not expected to be a taxable event for Public Storage, which will retain its existing interests in the Partnership and will be treated as having purchased the interests of the public limited partners.

Taxation of Public Storage as a REIT

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

Public Storage believes that it has been organized and operated, and it intends to continue to operate, in a manner to qualify as a REIT, but there can be no assurance that Public Storage will qualify or remain qualified as a REIT. Qualification and taxation as a REIT depend upon Public Storage's ability to meet, through actual annual (or in 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 Internal Revenue Code. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in Public Storage's circumstances, Public Storage cannot provide any assurance that its actual operating results will satisfy the requirements for taxation as a REIT under the Internal Revenue Code for any particular taxable year.

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So long as Public Storage qualifies for taxation as a REIT, Public Storage generally will not be subject to federal corporate income tax on its net income that is distributed currently to its shareholders. This treatment substantially eliminates "double taxation" (that is, taxation at both the corporate and shareholder levels) that generally results from an investment in a regular corporation. However, Public Storage will be subject to federal income tax as follows:

- (1) Public Storage 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) Under some circumstances, Public Storage may be subject to the "alternative minimum tax" on its items of tax preference;
- (3) If Public Storage has net income from the sale or other disposition of "foreclosure property" (generally property

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acquired through foreclosure after a default on a loan secured by the property or a lease of the property) that is held primarily for sale to customers in the ordinary course of business, or other nonqualifying income from foreclosure property, this income will be subject to tax at the highest corporate rate;

- (4) Public Storage's net income from "prohibited transactions" will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property (other than foreclosure property) held primarily for sale to customers in the ordinary course of business;
- (5) If Public Storage fails to satisfy either the 75% gross income test or the 95% gross income test discussed below, but still maintains its qualification as a REIT because other requirements are met, Public Storage will be subject to a tax equal to the gross income attributable to the greater of either (1) the amount by which 75% of its gross income exceeds the amount of its income qualifying under the 75% test for the taxable year or (2) the amount by which 90% of its gross income exceeds the amount of its income qualifying for the 95% income test for the taxable year, multiplied by a fraction intended to reflect Public Storage's profitability;
- (6) Public Storage will be subject to a 4% excise tax if Public Storage fails to distribute during each calendar year at least the sum of:
 - (a) 85% of its REIT ordinary income for the year;
 - (b) 95% of its REIT capital gain net income for the year; and
 - (c) any undistributed taxable income from prior taxable years; and

The tax applies to the excess of the required distribution over the sum of amounts actually distributed and amounts retained for which federal income tax was paid; and

- (7) Public Storage will be subject to a 100% penalty tax on some payments it receives (or on certain expenses deducted by a taxable REIT subsidiary) if arrangements among Public Storage, its tenants, and its taxable REIT subsidiaries are not comparable to similar arrangements among unrelated parties.

In addition, Public Storage could be liable for specified tax liabilities inherited from a taxable "C" corporation, if Public Storage acquired or acquires assets from such a corporation in a carryover basis transaction (such as in the case of its 1995 merger with Public Storage Management). Public Storage also has acquired assets in carryover basis merger transactions with a number of REITs (including its 1999 merger with Storage Trust Realty). If any such acquired REIT failed to qualify as a REIT at the time of its merger into Public Storage, it would have been a "C" corporation and Public Storage also would be liable for tax liabilities inherited from it.

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transaction, the "C" corporation is generally required to recognize gain with respect to the assets' "built-in gain." Built-in gain is the amount by which an asset's fair market value exceeds its adjusted basis. As the successor to these acquired entities, Public Storage would be liable for any tax owed by them as a result of the recognition of built-in gain. Applicable treasury regulations, however, allow an acquiring REIT, such as Public Storage, to make an election to avoid the recognition of gain and the imposition of corporate level tax on a built-in gain asset acquired in a carryover basis transaction from a "C" corporation unless and until the acquiring REIT disposes of that built-in gain asset during the 10-year period following the asset's acquisition, at which time the acquiring REIT would recognize, and would be subject to the highest regular corporate rate of tax on, the built-in gain. Public Storage elected to be subject to these 10-year built-in gain rules in connection with its merger with Public Storage Management. Similar rules would apply if in the future Public Storage acquires assets from a "C" corporation in a carryover basis transaction.

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

- (1) that is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
- (3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Internal Revenue Code;
- (4) that is neither a financial institution nor an insurance company subject to applicable provisions of the Internal Revenue Code;
- (5) the beneficial ownership of which is held by 100 or more persons;
- (6) during the last half of each taxable year not more than 50% in value of the outstanding shares of which is owned directly or indirectly by five or fewer individuals, as defined in the Internal Revenue Code to include specified entities;
- (7) that makes an election to be taxable as a REIT, or has made this election for a previous taxable year which has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the Internal Revenue Service 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 Internal Revenue Code and regulations; and
- (9) that meets other applicable tests, described below, regarding the nature of its income and assets and the amount of its distributions.

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. For purposes of determining stock 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

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is a qualified trust under Internal Revenue 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.

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Public Storage believes that it has issued sufficient shares with sufficient diversity of ownership to allow it to satisfy conditions (5) and (6) above. In addition, Public Storage's organizational documents contain restrictions regarding the transfer of its capital stock that are intended to assist it in continuing to satisfy the share ownership requirements described in conditions (5) and (6) above. The ownership restrictions in Public Storage's articles of incorporation and bylaws generally prohibit the actual or constructive ownership of more than 2% of the outstanding shares of common stock (excluding the interest held by the Hughes family) or more than 9.9% of the outstanding shares of each class or series of shares of preferred stock or equity stock, unless an exception is established by the board of directors. The restrictions provide that if, at any time, for any reason, those ownership limitations are violated or more than 50% in value of Public Storage's outstanding stock otherwise would be considered owned by five or fewer individuals, then a number of shares of stock necessary to cure the violation will automatically and irrevocably be transferred from the person causing the violation to a designated charitable beneficiary. See "Description of Common Stock and Class B Common Stock--Ownership Limitations." At the time of the merger with Public Storage Management, to further assist Public Storage in meeting the ownership restrictions, the Hughes family entered into an agreement with Public Storage 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 Public Storage's outstanding stock otherwise would be considered owned by five or fewer individuals, then a number of shares of Public Storage's common stock 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 Public Storage's organizational documents and the agreement with the Hughes family are modeled after certain arrangements that the Internal Revenue Service 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 Internal Revenue Service 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 Public Storage will not seek a private ruling on this or any other issue) or contend that Public Storage failed to enforce these various arrangements. Accordingly, there can be no assurance that these arrangements necessarily will preserve Public Storage's REIT status.

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. For taxable years commencing on or after January 1, 1998, if Public Storage complies with the annual letters requirement and does not know, or exercising reasonable diligence, would not have known, of a failure to meet condition (6) above, then Public Storage will be treated as having met condition (6) above.

To qualify as a REIT, Public Storage 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 various transactions, including the 1995

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merger with Public Storage Management, the 1999 merger with Storage Trust Realty and mergers with other affiliated REITs, Public Storage has succeeded to certain tax attributes of various entities and their predecessors, including any undistributed earnings and profits. Public Storage does not believe that it has acquired any undistributed earnings and profits and Public Storage believes that the REITs with which it has 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 Public Storage did not acquire any earnings and profits. There can be no assurance that the Internal Revenue Service would not contend otherwise on a subsequent audit.

If the Internal Revenue Service determined that Public Storage inherited undistributed non-REIT earnings and profits and that Public Storage did not distribute the non-REIT earnings and profits by the end of that taxable year, it appears that Public Storage 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 Public Storage to make a distribution to shareholders, in addition to the regularly required REIT distributions, within 90 days of the Internal Revenue Service determination. In addition, Public Storage would have to pay to the Internal Revenue Service interest on 50% of the non-REIT earnings and profits that were not distributed prior to the end of the taxable year in which Public Storage inherited the undistributed non-REIT earnings and profits. If, however, Public Storage were considered to be a "successor" under the applicable treasury regulations to a

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corporation that had failed to qualify as a REIT at the time of its merger with Public Storage, Public Storage 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. If a REIT owns a corporate subsidiary that is a "qualified REIT subsidiary," the separate existence of that subsidiary will be disregarded for federal income tax purposes. Generally, a qualified REIT subsidiary is a corporation, other than a "taxable REIT subsidiary" (discussed below), all of the capital stock of which is owned by the REIT. All assets, liabilities and items of income, deduction and credit of the qualified REIT subsidiary will be treated as assets, liabilities and items of income, deduction and credit of the REIT itself. A qualified REIT subsidiary of Public Storage will not be subject to federal corporate income taxation, although it may be subject to state and local taxation in some states.

Taxable REIT Subsidiaries. A "taxable REIT subsidiary" of Public Storage is a corporation in which Public Storage directly or indirectly owns stock and that elects, together with Public Storage, to be treated as a taxable REIT subsidiary under Section 856(l) of the Internal Revenue Code. In addition, if a taxable REIT subsidiary of Public Storage owns, directly or indirectly, securities representing 35% or more of the vote or value of a subsidiary corporation, that subsidiary will also be treated as a taxable REIT subsidiary of Public Storage. A taxable REIT subsidiary is a corporation subject to federal income tax, and state and local income tax where applicable, as a regular "C" corporation.

Generally, a taxable REIT subsidiary can perform some impermissible tenant services (as described under "-- Income Tests Applicable to REITs") without causing Public Storage to receive impermissible tenant services income under the REIT income tests. However, several provisions regarding 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

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federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to Public Storage. 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.

Public Storage and PS Orangeco Holdings, Inc. (and its direct and indirect subsidiaries, including PS Orangeco, Inc., PS Pickup & Delivery, Inc. and PS Insurance Co., Ltd), PSCC, Inc. and certain other corporations have made elections for those corporations to be treated as taxable REIT subsidiaries of Public Storage. These entities engage in businesses such as selling locks, boxes and packing materials, renting trucks, the portable self-storage business, providing moving services, reinsuring policies of insurance obtained by tenants covering losses to their goods while in storage, etc.

Ownership of Partnership Interests by a REIT. A REIT that is a partner in a partnership will be deemed to own its proportionate share of the assets of the partnership and will be 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, Public Storage has acquired interests in various partnerships that own and operate properties. Thus, Public Storage's 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, 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 Public Storage's interest in each of the partnerships must be determined in accordance with its "capital interest" in the partnership.

Public Storage believes that Storage Trust Properties, L.P., PS Business Parks, L.P. and each of the partnerships and limited liability companies in which Public Storage owns 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 Public Storage could fail to meet the REIT income and asset tests. See "--Taxation of Public Storage as a REIT--Income Tests Applicable to REITs" and "--Taxation of Public Storage as a REIT--Asset Tests Applicable to REITs" below.

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Income Tests Applicable to REITs. To qualify as a REIT, Public Storage must satisfy two gross income tests. First, at least 75% of its gross income for each taxable year, excluding gross income from prohibited transactions, must be derived directly or indirectly from investments relating to real property or mortgages on real property, including "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, or from some types of temporary investments. Second, at least 95% of its gross income for each taxable year, excluding gross income from prohibited transactions, must be derived from any combination of income qualifying under the 75% test and dividends, interest, some payments under hedging instruments and gain from the sale or disposition of stock or securities and some hedging instruments.

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Rents that Public Storage receives will qualify as rents from real property in satisfying the gross income tests for a REIT described above only if several conditions are met. First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued 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 receipts or sales. Second, rents received from a "related party tenant" will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a taxable REIT subsidiary and at least 90% of the property is leased to unrelated tenants and the rent paid by the taxable REIT subsidiary is substantially comparable to the rent paid by the unrelated tenants for comparable space. A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant. Third, if rent attributable to personal property that is leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

Generally, for rents to qualify as rents from real property for the purpose of satisfying the gross income tests, Public Storage is only allowed directly to provide services that are "usually or customarily rendered" in connection with the rental of real property and not otherwise considered "rendered to the occupant." Accordingly, Public Storage may not provide "impermissible services" to tenants (except through a taxable REIT subsidiary, or through an independent contractor that bears the expenses of providing the services and from whom Public Storage derives no revenue) without giving rise to "impermissible tenant service income," which is nonqualifying income for purposes of the income tests. For this purpose, the amount that Public Storage would be deemed to have received for performing any "impermissible services" will be the greater of the actual amount so received or 150% of the direct cost to Public Storage of providing those services. If impermissible tenant service income exceeds 1% of total income from a property, all of the income from that property will fail to qualify as rents from real property. If the total amount of impermissible tenant service income from a property does not exceed 1% of total income from the property, the services will not "taint" the other income from the property (that is, they will not cause the rent paid by tenants of that property to fail to qualify itself as rents from real property), but the impermissible tenant service income will not qualify as rents from real property.

In light of these requirements, Public Storage does not intend to take any of the actions listed below, unless Public Storage determines that the resulting nonqualifying income, taken together with all other nonqualifying income that Public Storage earns in the taxable year, will not jeopardize its 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 receipts or sales, as permitted and described above);
- (2) rent any property to a related party tenant, including 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

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rendered to the occupant of the property.

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In connection with Public Storage's merger with Public Storage Management, Public Storage and the various other owners of self-storage facilities and business parks for which Public Storage 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, Public Storage received a private letter ruling from the Internal Revenue Service to the effect that the reimbursements and other payments made to PSCC by the owners would not be treated as Public Storage's revenues for purposes of the 95% gross income test, and to the effect that Public Storage's income from self-storage facility rentals generally would qualify as rent from real property for purposes of the REIT gross income tests. Public Storage 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 Public Storage's income from self-storage facility rentals as rent from real property for purposes of the REIT gross income tests.

Public Storage owns substantially all of the economic interest in Pickup & Delivery (the portable self-storage business). The income from that business would be nonqualifying income to Public Storage 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 Public Storage's partnership interest, when combined with its other nonqualifying income, must be less than 5% of its total gross income. While Public Storage has earned and will continue to earn some nonqualifying income from this and other sources, Public Storage anticipates that it will be able to continue to satisfy both the 95% and 75% gross income tests.

The ownership of certain partnership interests creates several issues regarding Public Storage's satisfaction of the 95% gross income test. First, Public Storage earns 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 Internal Revenue Service 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. Public Storage disregards the portion of management fees derived from partnerships in which Public Storage is a partner that corresponds to its interest in these partnerships in determining the amount of its nonqualifying income. There can be no assurance, however, that the Internal Revenue Service 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 Public Storage's situation is distinguishable from those addressed in the private letter rulings (for example, arguing that Public Storage does not have a "substantial" interest in the partnerships).

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In addition, Public Storage acquired interests in certain of these partnerships that entitle Public Storage 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 Public Storage's "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 Public Storage and the percentage of the management fees paid to Public Storage that is disregarded in determining its nonqualifying income. For example, if Public Storage takes the position that it has a 25% "capital interest" in a partnership (because Public Storage would receive 25% of the partnership's assets upon a sale and liquidation) but the Internal Revenue Service determines Public Storage only has a 1% "capital interest" (because the original holder of that interest only contributed 1% of the total capital contributed to the partnership), Public Storage's 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 might adversely affect its ability to satisfy the 95% gross income test. In determining Public Storage's "capital interest" in the various partnerships, Public Storage estimates the percentage of the partnership's assets that would be distributed to Public Storage if those assets were sold and distributed among the partners in accordance with the applicable

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provisions of the partnership agreements. There can be no assurance, however, that the Internal Revenue Service will agree with this methodology and not contend that another, perhaps less favorable, method must be used for purposes of determining Public Storage's "capital interests," which could adversely affect its ability to satisfy the 95% gross income test.

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

Public Storage's share of any dividends received from its corporate subsidiaries (and from other corporations in which Public Storage owns an interest) will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Public Storage does not anticipate that it will receive sufficient dividends to cause it to exceed the limit on nonqualifying income under the 75% gross income test.

If Public Storage fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, Public Storage may still qualify as a REIT for that year if it is entitled to relief under the Internal Revenue Code. The relief provisions generally will be available if its failure to meet the tests is due to reasonable cause and not due to willful neglect, Public Storage attaches a schedule of the sources of its income to its federal income tax return and any incorrect information on the schedule is not due to fraud with intent to evade tax. It is not possible, however, to state whether in all circumstances Public Storage would be entitled to the benefit of these relief provisions. For example, if Public Storage fails to satisfy the gross income tests because nonqualifying income that Public Storage intentionally receives exceeds the limits on nonqualifying income, the Internal Revenue Service 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

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involving Public Storage, Public Storage could 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.

Any gain that Public Storage realizes on the sale of any property held as inventory or other property held primarily for sale to customers in the ordinary course of business, including its share of this type of gain realized by a partnership in which Public Storage holds an interest, 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 customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances of each particular transaction. Public Storage intends to hold its properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing, owning and operating properties, and to make occasional sales of properties as are consistent with its investment objectives. Public Storage cannot provide any assurance, however, that the Internal Revenue Service might not contend that one or more of these sales are subject to the 100% penalty tax.

Asset Tests Applicable to REITs. At the close of each quarter of a taxable year, Public Storage must satisfy four tests relating to the nature of its assets:

- (1) at least 75% of the value of its total assets must be represented by real estate assets, cash, cash items and government securities. Real estate assets include, for this purpose, Public Storage's allocable share of real estate assets held by partnerships in which Public Storage has invested, as well as stock or debt instruments held for less than one year purchased with the proceeds of an offering of shares or long-term debt of Public Storage;
- (2) not more than 25% of its total assets may be represented by securities other than those in the 75% asset class;
- (3) except for equity investments in REITs, qualified REIT subsidiaries, or taxable REIT subsidiaries or other securities that qualify as "real estate assets" for purposes of the test described in clause (1):

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- (a) the value of any one issuer's securities that Public Storage owns may not exceed 5% of the value of Public Storage's total assets;
 - (b) Public Storage may not own more than 10% of any one issuer's outstanding voting securities; and
 - (c) Public Storage may not own more than 10% of the value of the outstanding securities of any one issuer; and
- (4) not more than 20% of its total assets may be represented by securities of one or more taxable REIT subsidiaries.

Securities for purposes of the asset tests may include debt securities. However, debt of an issuer will not count as a security for purposes of the 10% value test if the debt securities are "straight debt" as defined in Section 1361 of the Internal Revenue Code and (1) the issuer is an individual, (2) the only

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securities of the issuer that the REIT holds are straight debt or (3) if the issuer is a partnership, the REIT holds at least a 20% profits interest in the partnership.

Public Storage currently owns 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. Public Storage believes 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, Public Storage's 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 a REIT's ownership in corporations (other than REITs, qualified REIT subsidiaries and taxable REIT subsidiaries). If PS Business Parks, Inc. failed to qualify as a REIT, Public Storage would not meet the 10% voting stock limitation and the 10% value limitation with respect to its interest in PS Business Parks, Inc., and accordingly, Public Storage also would fail to qualify as a REIT.

Public Storage believes that the aggregate value of its taxable REIT subsidiaries does not exceed 20% of the aggregate value of its 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 Public Storage owns an interest as a taxable REIT subsidiary, which election first became available as of January 1, 2001, Public Storage believes Public Storage did not own more than 10% of the voting securities of any such entity. In addition, Public Storage believes 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 Public Storage owns an interest as a taxable REIT subsidiary of Public Storage, Public Storage's 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 its assets.

With respect to each issuer in which Public Storage currently owns an interest that does not qualify as a REIT, a qualified REIT subsidiary or a taxable REIT subsidiary, Public Storage believes that its pro rata share of the value of the securities, including debt, of any such issuer does not exceed 5% of the total value of its assets and that it complies with the 10% voting securities limitation and 10% value limitation with respect to each such issuer. In this regard, however, Public Storage cannot provide any assurance that the Internal Revenue Service might not disagree with its determinations.

After initially meeting the asset tests at the close of any quarter, Public Storage will not lose its status as a REIT if it fails to satisfy the 25%, 20%, and 5% asset tests and the 10% value limitation at the end of a later quarter solely by reason of changes in the relative values of its assets. If the failure to satisfy the 25%, 20%, or 5% asset tests or the 10% value limitation results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. Public Storage intends to

maintain adequate records of the value of its assets to maintain compliance with the asset tests and would attempt to take any available actions within 30 days

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after the close of any quarter in an effort to cure any noncompliance with the 25%, 20%, or 5% asset tests or 10% value limitation of which Public Storage becomes aware within that period. If Public Storage failed to cure noncompliance with the asset tests within this time period, Public Storage would cease to qualify as a REIT.

Annual Distribution Requirements Applicable to REITs. To qualify as a REIT, Public Storage is required to distribute dividends, other than capital gain dividends, to its shareholders each year in an amount at least equal to (1) the sum of (a) 90% (95% prior to 2001) of its REIT taxable income, computed without regard to the dividends paid deduction and its net capital gain, and (b) 90% (95% prior to 2001) of the net income, after tax, from foreclosure property, minus (2) the sum of certain specified items of noncash income. In addition, if Public Storage recognizes any built-in gain, Public Storage is required under the treasury regulations to distribute at least 90% of the built-in gain, after tax, recognized on the disposition of the applicable asset. See "--Taxation of Public Storage as a REIT--General" for a discussion of the possible recognition of built-in gain. These distributions must be paid either in the taxable year to which they relate, or in the following taxable year if declared before Public Storage timely files its tax return for the prior year and if paid with or before the first regular dividend payment date after the declaration is made.

In years prior to 1990, Public Storage made distributions in excess of its REIT taxable income. During 1990, Public Storage reduced the level of distributions to its shareholders. As a result, distributions paid by Public Storage in 1990 were less than 95% of its REIT taxable income for 1990. Public Storage satisfied the REIT distribution requirements for 1990 through 2000 by attributing distributions in 1991 through 2001 to the prior year's taxable income, and Public Storage expects to satisfy the distribution requirement for 2001 by attributing distributions in 2002 to its 2001 taxable income. Public Storage 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 Public Storage will be required to attribute distributions to the prior year will depend on its operating results and the level of distributions as determined by the board of directors. As noted below, reliance on subsequent year distributions could cause Public Storage to be subject to an excise tax, although Public Storage intends to comply with the 85% current distribution requirement under the excise tax in an effort to avoid or minimize any effect of that tax.

Public Storage intends to make timely distributions sufficient to satisfy the annual distribution requirements. Although Public Storage anticipates that its cash flow will permit it to make those distributions, it is possible that, from time to time, Public Storage may not have sufficient cash or other liquid assets to meet these distribution requirements. In this event, Public Storage 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 Public Storage shares.

Under some circumstances, Public Storage may be able to rectify a failure to meet the distribution requirement for a year by paying deficiency dividends to shareholders in a later year, which may be included in Public Storage's deduction for dividends paid for the earlier year. Thus, Public Storage may be able to avoid being taxed on amounts distributed as deficiency dividends; however, Public Storage will be required to pay interest to the government based upon the amount of any deduction taken for deficiency dividends.

To the extent that Public Storage does not distribute all of its net capital gain or distribute at least 90%, but less than 100%, of its REIT taxable

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income, as adjusted, Public Storage is subject to tax on these amounts at regular corporate tax rates.

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 below, any retained amounts would be treated as having been distributed.

As mentioned above, Public Storage would be subject to a 4% excise tax if Public Storage failed to distribute during each calendar year at least the sum of:

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- (1) 85% of its REIT ordinary income for the year;
- (2) 95% of its REIT capital gain net income for the year; and
- (3) any undistributed taxable income from prior taxable years.

This 4% excise tax applies to the excess of such required distribution over the sum of amounts actually distributed and amounts retained for which federal income tax was paid.

Record-Keeping Requirements. Public Storage is 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 Public Storage failed to qualify for taxation as a REIT in any taxable year, and if relief provisions do not apply, Public Storage will be subject to tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. If Public Storage fails to qualify as a REIT, Public Storage will not be required to make any distributions to shareholders and any distributions that are made to shareholders will not be deductible by Public Storage. As a result, Public Storage's failure to qualify as a REIT would significantly reduce the cash available for distributions by Public Storage to its shareholders. In addition, if Public Storage fails to qualify as a REIT, all distributions to shareholders will be taxable as ordinary income to the extent of Public Storage's current and accumulated earnings and profits, whether or not attributable to capital gains of Public Storage, and corporate shareholders may be eligible for the dividends received deduction. Unless entitled to relief under specific statutory provisions, Public Storage also would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. There can be no assurance that Public Storage would be entitled to any statutory relief.

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 United States federal income tax purposes:

- (1) a citizen or resident, as defined in Section 7701(b) of the Internal Revenue Code, of the United States;
- (2) a corporation or partnership, or other entity treated as a

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corporation or partnership for federal income tax purposes, created or organized under the laws of the United States, any state or the District of Columbia;

- (3) an estate the income of which is subject to federal income taxation regardless of its source; or
- (4) in general, a trust subject to the primary supervision of a United States court and the control of one or more United States persons.

Generally, in the case of a partnership that holds Public Storage common shares, any partner that would be a U.S. shareholder if it held the Public Storage common shares directly is also a U.S. shareholder. A "non-U.S. shareholder" is a holder, including any partner in a partnership that holds Public Storage common shares, that is not a U.S. shareholder.

Distributions by Public Storage. So long as Public Storage qualifies as a REIT, distributions to U.S. shareholders out of Public Storage's current or accumulated earnings and profits that are not designated as capital gain dividends will be taxable as ordinary income and will not be eligible for the dividends received deduction generally available for corporations. Distributions in excess of Public Storage's current and accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that the distributions do not exceed the adjusted tax basis of the shareholder's shares. Rather, the distributions will reduce the adjusted tax basis of the shares. Distributions that exceed the U.S. shareholder's adjusted basis in the shares will be taxable

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as capital gains. If Public Storage declares a dividend in October, November, or December of any year with a record date in one of these months and pay the dividend on or before January 31 of the following year, Public Storage will be treated as having paid the dividend, and the shareholder will be treated as having received the dividend, on December 31 of the year in which the dividend was declared.

Public Storage may elect to designate distributions of its net capital gain as "capital gain dividends." Capital gain dividends are taxed to shareholders as gain from the sale or exchange of a capital asset held for more than one year, without regard to how long the U.S. shareholder has held the shares. Designations that Public Storage makes only will 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 Public Storage designates any portion of a dividend as a capital gain dividend, a U.S. shareholder will receive an Internal Revenue Service 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 capital gain dividends as ordinary income.

Instead of paying capital gain dividends, Public Storage may designate all or part of its net capital gain as "undistributed capital gain." Public Storage will be subject to tax at regular corporate rates on any undistributed capital gain. A U.S. shareholder:

- (1) will include in its income as long-term capital gains its proportionate share of such undistributed capital gains and
- (2) will be deemed to have paid its proportionate share of the tax paid by Public Storage on such undistributed capital gains and

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receive a credit or refund to the extent that the tax Public Storage paid 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. Public Storage's earnings and profits will be adjusted appropriately.

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

- (1) a 20% rate gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 20%; or
- 2) an "unrecaptured Section 1250 gain" distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 25%.

Public Storage must determine the maximum amounts that Public Storage may designate as 20% and 25% rate capital gain dividends by performing the computation required by the Internal Revenue Code as if Public Storage were an individual whose ordinary income were subject to a marginal tax rate of at least 28%.

Distributions that Public Storage makes and gain arising from the sale or exchange by a U.S. shareholder of Public Storage shares will not be treated as passive activity income, and as a result, U.S. shareholders generally will not be able to apply any "passive losses" against this income or gain. In addition, taxable distributions from Public Storage generally will be treated as investment income for purposes of the investment interest limitations. A U.S. shareholder may elect to treat capital gain dividends and capital gains from the disposition of shares as investment income for purposes of the investment interest limitation, in which case the applicable capital gains will be subject to tax at ordinary income rates. Public Storage will notify shareholders regarding the portions of distributions for each year that constitute ordinary income, return of capital, capital gain or represent tax preference items to be taken into account for purposes of computing the alternative minimum tax liability of the shareholders. U.S. shareholders may not include in their individual income tax returns any of Public Storage's net operating losses or capital losses. Those operating or capital losses may be carried over by Public Storage for potential offset against future income, subject to applicable limitations.

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Sales of Shares. Upon any taxable sale or other disposition of shares, a U.S. shareholder will recognize gain or loss for federal income tax purposes in an amount equal to the difference between: (1) the amount of cash and the fair market value of any property received on the sale or other disposition; and (2) the holder's adjusted tax basis in the shares for tax purposes.

This gain or loss will be a capital gain or loss. The applicable tax rate will depend on the shareholder's holding period for the asset (generally, if an asset has been held for more than one year it will produce long-term capital gain) and the shareholder's tax bracket. The Internal Revenue Service 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

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that would correspond to the REIT's "unrecaptured Section 1250 gain." Shareholders are urged to consult with their tax advisors with respect to their capital gain tax liability. A corporate U.S. shareholder will be subject to tax at a maximum rate of 35% on capital gain from the sale of Public Storage shares held for more than 12 months. In general, any loss recognized by a U.S. shareholder upon the sale or other disposition of shares that have been held for six months or less, after applying the holding period rules, will be treated as a long-term capital loss, to the extent of distributions received by the U.S. shareholder from Public Storage that were required to be treated as long-term capital gains.

Taxation of Tax-Exempt Shareholders

Provided that a tax-exempt shareholder has not held its common shares as "debt financed property" within the meaning of the Internal Revenue Code, distributions from Public Storage will not be unrelated business taxable income, referred to as UBTI, to a tax-exempt shareholder. Similarly, income from the sale of shares will not constitute UBTI unless the tax-exempt shareholder has held its shares as debt financed property within the meaning of the Internal Revenue Code or has used the shares in a trade or business.

However, for tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Internal Revenue Code, respectively, income from an investment in Public Storage will constitute UBTI unless the organization properly sets aside or reserves such amounts for purposes specified in the Internal Revenue Code. These tax-exempt shareholders should consult 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 Internal Revenue Code, is tax-exempt under Section 501(a) of the Internal Revenue Code, and holds more than 10%, by value, of the interests in the REIT. Tax-exempt pension funds that are described in Section 401(a) of the Internal Revenue Code are referred to below as "pension trusts."

A REIT is a pension held REIT if it meets the following two tests:

- (1) it qualified as a REIT only by reason of Section 856(h)(3) of the Internal Revenue Code, which provides that stock owned by pension trusts will be treated, for purposes of determining if the REIT is closely held, as owned by the beneficiaries of the trust rather than by the trust itself; and
- (2) either (a) at least one pension trust holds more than 25% of the value of the REIT's stock, or (b) a group of pension trusts each individually holding more than 10% of the value of the REIT's shares, collectively owns more than 50% of the value of the REIT's shares.

The percentage of any REIT dividend treated as UBTI under these pension held rules 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. The provisions requiring pension trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to

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satisfy the "not closely held requirement" without relying upon the "look-through" exception for pension trusts. Based on both Public Storage's current share ownership and the limitations on transfer and ownership of shares contained in its organizational documents, Public Storage does not expect to be classified as a pension held REIT.

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

Distributions by Public Storage. Public Storage's distributions to a non-U.S. shareholder that are neither attributable to gain from sales or exchanges by Public Storage of "U.S. real property interests" nor designated by Public Storage as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of Public Storage's current or accumulated earnings and profits. These distributions ordinarily will be subject to withholding of U.S. federal income tax on a gross basis at a rate of 30%, or a lower rate as permitted under an applicable income tax treaty, unless the dividends are treated as effectively connected with the conduct by the non-U.S. shareholder of a U.S. trade or business. Under some treaties, however, lower withholding rates generally applicable to dividends do not apply to dividends from REITs. Applicable certification and disclosure requirements must be satisfied to be exempt from withholding under the effectively connected income exemption. Dividends that are effectively connected with a trade or business 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 are taxed with respect to these dividends, and are generally not subject to withholding. Any dividends received by a corporate non-U.S. shareholder that is engaged in a U.S. trade or business also may be subject to an additional branch profits tax at a 30% rate, or lower applicable treaty rate.

Distributions in excess of current and accumulated earnings and profits that exceed the non-U.S. shareholder's basis in Public Storage common shares will be taxable to a non-U.S. shareholder as gain from the sale of common shares, which is discussed below. Distributions in excess of current or accumulated earnings and profits of Public Storage that do not exceed the adjusted basis of the non-U.S. shareholder in the common shares will reduce the non-U.S. shareholder's adjusted basis in the common shares and will not be subject to U.S. federal income tax, but will be subject to U.S. withholding tax as described below.

Public Storage expects to withhold U.S. income tax at the rate of 30% on any dividend distributions (including distributions that later may be determined to have been in excess of current and accumulated earnings and profits) made to a non-U.S. shareholder unless:

- (1) a lower treaty rate applies and the non-U.S. shareholder files an Internal Revenue Service Form W-8BEN evidencing eligibility for that reduced treaty rate with Public Storage; or
- (2) the non-U.S. shareholder files an Internal Revenue Service Form W-8ECI with Public Storage claiming that the distribution is effectively connected income.

Public Storage may be required to withhold at least 10% of any distribution in excess of its 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, a non-U.S. shareholder may seek a refund of these amounts from the Internal Revenue Service if the non-U.S. shareholder's U.S. tax liability with respect to the distribution is less than the amount withheld.

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Distributions to a non-U.S. shareholder that Public Storage designates at the time of the distribution as capital gain dividends, other than those arising from the disposition of a U.S. real property interest, generally should not be subject to U.S. federal income taxation unless:

- (1) the investment in the common shares is effectively connected with the non-U.S. shareholder's U.S. trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders on any gain, except that a shareholder that is a foreign corporation also may be subject to the 30% branch profits tax, as discussed above, or

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- (2) the non-U.S. shareholder is a nonresident alien individual who is present in the U.S. for 183 days or more during the taxable year and has a "tax home" in the U.S., in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

Under the Foreign Investment in Real Property Tax Act, which is referred to as "FIRPTA," distributions to a non-U.S. shareholder that are attributable to gain from sales or exchanges by Public Storage of U.S. real property interests, whether or not designated as a capital gain dividend, will cause the non-U.S. shareholder to be treated as recognizing gain that is income effectively connected with a U.S. trade or business. Non-U.S. shareholders will be taxed on this gain at the same rates applicable to U.S. shareholders, subject to a special alternative minimum tax in the case of nonresident alien individuals. Also, this gain may be subject to a 30% branch profits tax in the hands of a non-U.S. shareholder that is a corporation.

Public Storage will be required to withhold and remit to the Internal Revenue Service 35% of any distributions to foreign shareholders that are designated as capital gain dividends, or, if greater, 35% of a distribution that could have been designated as a capital gain dividend. Distributions can be designated as capital gains to the extent of Public Storage's net capital gain for the taxable year of the distribution. The amount withheld is creditable against the non-U.S. shareholder's United States federal income tax liability.

Although the law is not clear on the matter, it appears that amounts Public Storage designates as undistributed capital gains in respect of the common shares held by U.S. shareholders generally should be treated for non-U.S. shareholders in the same manner as actual distributions by Public Storage of capital gain dividends. Under that approach, the non-U.S. shareholders would be able to offset as a credit against their United States federal income tax liability resulting from reporting the capital gain their proportionate share of the tax paid by Public Storage on the undistributed capital gains, and to receive from the Internal Revenue Service a refund to the extent their proportionate share of this tax paid by Public Storage were to exceed their actual United States federal income tax liability.

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

- (1) the investment in the Public Storage common shares is effectively connected with the non-U.S. shareholder's U.S. trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as domestic shareholders as to any gain;

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- (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 for the taxable year; or
- (3) the Public Storage common shares constitute a U.S. real property interest within the meaning of FIRPTA, as described below.

The Public Storage common shares will not constitute a U.S. real property interest if Public Storage is a domestically controlled REIT. Public Storage will be a domestically controlled REIT if, at all times during a specified testing period, less than 50% in value of its stock is held directly or indirectly by non-U.S. shareholders. Public Storage believes that it currently is a domestically controlled REIT and, therefore, that the sale of Public Storage common shares would not be subject to taxation under FIRPTA. Because the shares are publicly traded, however, Public Storage cannot guarantee that Public Storage is or will continue to be a domestically controlled REIT. Even if Public Storage does not qualify as a domestically controlled REIT at the time a non-U.S. shareholder sells Public Storage 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 NYSE; and

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- (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 five-year period ending on the date of the sale or exchange.

If gain on the sale or exchange of Public Storage common shares were subject to taxation under FIRPTA, the non-U.S. shareholder would be subject to regular U.S. income tax as to any gain 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 Public Storage common shares and payments of the proceeds of the sale of the common shares to some shareholders, unless an exception applies. Further, the payer will be required to withhold backup withholding tax at the rate of 30.5% (the rate is subject to reduction through 2006) 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 Internal Revenue Service notifies the payer that the TIN furnished by the payee is incorrect;
- (3) there has been a notified payee underreporting of interest,

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dividends or original issue discount described in Section 3406(c) of the Internal Revenue 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 Internal Revenue Code.

Some shareholders, including corporations, will 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 United States federal income tax and may entitle the shareholder to a refund, provided that the required information is furnished to the Internal Revenue Service.

Non-U.S. Shareholders

Generally, information reporting will apply to payments of distributions on Public Storage common shares, and backup withholding at a rate of 30.5% (the rate is subject to reduction through 2006) may 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 Public Storage common shares to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and, possibly, backup withholding 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 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 U.S. 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, information reporting generally will apply unless the broker has documentary evidence as to the non-U.S. shareholder's foreign status and has no actual knowledge to the contrary.

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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. Under these treasury regulations, some shareholders are required to have provided new certifications as to payments made after December 31, 2000. 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.

Other Tax Consequences for Public Storage and Its Shareholders

A portion of the cash to be used by Public Storage to fund distributions may come from dividends paid by its taxable REIT subsidiaries. The taxable REIT subsidiaries are subject to federal and state income tax at the full applicable corporate rates. In addition, a taxable REIT subsidiary may be limited in its ability to deduct interest payments made to Public Storage. To the extent that Public Storage and its taxable REIT subsidiaries are required to pay federal, state or local taxes, Public Storage will have less cash available for distribution to shareholders.

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STATE AND LOCAL TAXES

The tax treatment of limited partners, Public Storage and Public Storage's shareholders in states having taxing jurisdiction over them may differ from the federal income tax treatment. Accordingly, no discussion of state taxation of limited partners, Public Storage or Public Storage's shareholders is provided nor is any representation made as to the tax status of Public Storage in such states. All limited partners should consult their own tax advisors as to the treatment under the respective state tax laws applicable to them.

LEGAL OPINIONS

David Goldberg, vice president and senior counsel of Public Storage, will deliver an opinion to the effect that the shares of Public Storage common stock to be issued in the merger will be validly issued, fully paid and nonassessable. Mr. Goldberg owns 117,881 shares of Public Storage common stock, 3,396 depositary shares representing interests in equity stock and 600 shares of Public Storage senior preferred stock and has options to acquire an additional 253,434 shares of Public Storage common stock. A. Timothy Scott, senior vice president and tax counsel of Public Storage, has rendered an opinion to the effect that the discussion under "Federal Income Tax Considerations" fairly summarizes the material federal income tax considerations to a limited partner as a result of the merger, and the subsequent ownership of Public Storage common stock. Mr. Scott owns 3,367 shares of Public Storage common stock, 109 depositary shares representing interests in equity stock and has options to acquire an additional 225,000 shares of Public Storage common stock.

EXPERTS

The consolidated financial statements and schedules of Public Storage, Inc. at December 31, 2000 and 1999 and for the three years in the period ended December 31, 2000 which are included in Public Storage's Annual Report on Form 10-K have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated by reference herein in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The financial statements of the Partnership and SEI/PSPV Joint Ventures at December 31, 2000 and 1999 and for the three years in the period ended December 31, 2000 appearing herein and in the Annual Report on Form 10-K of the Partnership have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports included herein. Such financial statements are included herein in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION ("Agreement") is entered into as of this 25th day of February, 2002, by and among PUBLIC STORAGE, INC., a California corporation ("PSI"), PS Partners V Merger Co., Inc., a California corporation ("Sub") and PS Partners V, Ltd., a California Limited Partnership ("PSP").

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A. This Agreement provides for the merger of Sub, a wholly-owned, second tier subsidiary of PSI, with and into PSP in accordance with the applicable provisions of the California Revised Limited Partnership Act (the "CRLPA") and the Certificate of Merger in the form prescribed by the California Secretary of State as provided in Section 15678.4 of the CRLPA (the "Certificate of Merger").

B. The Board of Directors of PSI and the general partners of PSP believe that it is in the best interests of PSI and PSP to enter into and complete this Agreement and they have approved this Agreement and the transactions contemplated hereby.

NOW, THEREFORE, the parties agree as follows:

1. Adoption of Plan. The parties hereby adopt the Plan of Reorganization hereinafter set forth.
2. The Merger.

2.1 Completion of the Merger. At the Effective Time (as defined below), Sub will be merged with and into PSP (the "Merger") in accordance with the terms, conditions and provisions of this Agreement and the Certificate of Merger. The Merger shall become effective at the time at which the Certificate of Merger is filed with the California Secretary of State in accordance with the CRLPA, except that if the Certificate of Merger specifies a date subsequent to the date of such filing on which the Merger is to become effective, the Merger shall be effective on such specified subsequent date (the "Effective Time"). Sub and PSP are sometimes collectively referred to herein as the "Constituent Entities" and PSP, as the surviving entity in the Merger, is sometimes referred to herein as the "Surviving Entity."

2.2 Effect of the Merger. At the Effective Time:

2.2.1 Constituent Entities. The separate corporate existence of Sub shall cease and the Surviving Entity shall thereupon succeed, without other transfer, to all the rights and property of Sub and shall be subject to all the debts and liabilities of Sub in the same manner as if the Surviving Entity had itself incurred them; all rights of creditors and all liens upon the property of each of the Constituent Entities shall be preserved unimpaired, provided that such liens upon property of Sub shall be limited to the property affected thereby immediately prior to the Effective Time; and any action or proceeding pending by or against Sub may be prosecuted to judgment, which shall bind the Surviving Entity, or the Surviving Entity may be proceeded against or substituted in its place.

2.2.2 Partnership Agreement. The partnership agreement of PSP in effect at the Effective Time shall continue in full force and effect until amended or terminated as provided in such partnership agreement or as provided by law.

2.2.3 General Partners. The general partners of PSP shall remain as its general partners with the same interests in PSP that they owned at the Effective Time.

2.3 Conversion of Partnership Units. The manner of converting the outstanding units of limited partnership interest of PSP (the "Units") into cash and/or shares of Common Stock (\$.10 par value) of PSI (the "PSI Shares") shall be as follows:

2.3.1 Cash Election. At the Effective Time, each Unit as

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to which a cash election has been made in accordance with the provisions of Section 2.5 hereof and has not been revoked, relinquished or lost pursuant to Section 2.5 hereof (the "Cash Election Units") shall be converted into and shall represent the right to receive \$596 in cash (the "Cash Election Price"). As soon as practicable after the Effective Time, the registered holders of Cash Election Units shall be paid the cash to which they are entitled hereunder in respect of such Cash Election Units.

2.3.2 Share Exchange. At the Effective Time, subject to Sections 2.4 and 2.5 hereof, each Unit (other than Cash Election Units and Units owned by the parent of Sub) shall be converted into that number of PSI Shares equal to, rounded to the nearest thousandth, the quotient (the "Conversion Number") derived by dividing \$596 by the average of the per share closing prices on the New York Stock Exchange, Inc. (the "NYSE") of PSI Shares during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Time. If, prior to the Effective Time, PSI should split or combine the PSI Shares, or pay a stock dividend, the Conversion Number will be appropriately adjusted to reflect such action.

2.4 No Fractional Shares. Notwithstanding any other term or provision of this Agreement, no fractional PSI Shares and no certificates or script therefor, or other evidence of ownership thereof, will be issued in the Merger. In lieu of any such fractional share interests, each holder of Units who would otherwise be entitled to such fractional share will receive a whole PSI Share if such fractional share to which such holder would otherwise have been entitled is .5 of an PSI Share or more, and such fractional share shall be disregarded if it represents less than .5 of an PSI Share; provided, however, that, such fractional share shall not be disregarded if such fractional share to which such holder would otherwise have been entitled represents .5 of 1% or more of the total number of PSI Shares such holder is entitled to receive in the Merger. In such event, such holder shall be paid an amount in cash (without interest), rounded to the nearest \$.01, determined by multiplying (i) the per share closing price on the NYSE of the PSI Shares at the Effective Time by (ii) the fractional interest.

2.5 Procedure for Cash Election. At the time of the mailing of the Information Statement provided for in Section 6.5 hereof, PSI will send to each holder of record of Units a cash election form (the "Form of Election") providing such holder with the option to elect to receive the Cash Election Price with respect to all of such holder's Units. Any such election to receive the cash payment contemplated by Section 2.3.1 hereof shall have been properly made only if BankBoston, N.A. (the "Exchange Agent") shall have received at its designated office, by 5:00 p.m., New York time, on the last business day preceding the Effective Time, a Form of Election properly completed, as set forth in such Form of Election. Any Form of Election may be revoked by the person submitting the same to the Exchange Agent only by written notice received by the Exchange Agent prior to 5:00 p.m., New York time, on the last business day before the Effective Time. In addition, all Forms of Election shall automatically be revoked if the Exchange Agent is notified in writing by the parties hereto that the Merger have been abandoned. The Exchange Agent may determine whether or not elections to receive cash have been properly made or revoked pursuant to this Section 2.5, and any such determination shall be conclusive and binding. If the Exchange Agent determines that any election to receive cash was not properly or timely made, the Units covered thereby shall not be treated as Cash Election Units, and shall be converted in the Merger as provided in Section 2.3.2 hereof. The Exchange Agent may, with the agreement of PSI and PSP, establish such procedures, not inconsistent with this Section 2.5, as may be necessary or desirable to implement this Section 2.5.

2.6 Conversion of Shares. At the Effective Time, the shares of capital stock of Sub shall be converted into an aggregate of 148,000 Units.

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2.7 Cancellation of Units Owned by Parent of Sub. At the Effective Time, any Units owned by the parent of Sub (other than Units acquired pursuant to Section 2.6 hereof) shall be cancelled and retired and no shares shall be issuable, and no cash shall be exchangeable, with respect thereto.

2.8 Delivery of Certificates. After the Effective Time, each holder of Units which were converted into PSI Shares pursuant to Section 2.3.2 shall be entitled to receive a certificate representing the number of whole PSI Shares into which such Units shall have been converted as provided in Section 2.3.2 hereof and cash payment in lieu of fractional share interests, if any, as provided in Section 2.4 hereof.

3. Closing.

3.1 Time and Place of Closing. If this Agreement is approved by the limited partners of PSP, a meeting (the "Closing") shall take place as promptly as practicable thereafter at which the applicable parties will exchange certificates and other documents as required by this Agreement. Such Closing shall take place at such time and place as PSI may designate. The date of the Closing shall be referred to as the "Closing Date."

3.2 Execution and Filing of Certificate of Merger. At or before the Closing and after approval of the limited partners of PSP, the applicable parties shall execute the Certificate of Merger for filing with the California Secretary of State. The Certificate of Merger shall be duly filed with the California Secretary of State in accordance with the CRLPA.

4. Representations, Warranties and Agreements of PSP. PSP represents, warrants and agrees with PSI that:

4.1 Authorization. Subject to approval of this Agreement by the limited partners of PSP, (i) the execution, delivery and performance of this Agreement by PSP has been duly authorized and approved by all necessary action of PSP, and (ii) PSP has necessary power and authority to enter into this Agreement, to perform its obligations hereunder and to complete the transactions contemplated hereby.

4.2 Organization and Related Matters. PSP is a limited partnership duly organized, existing and in good standing under the laws of the State of California with all requisite power and authority to own, lease and operate its properties and to carry on its business as and where now owned, leased, operated or carried on, as the case may be; and is duly qualified to do business and is in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business carried on by it requires such qualification and where the failure to so qualify would have a material adverse effect on its business, properties, results of operations or financial condition.

4.3 Units. PSP has outstanding 148,000 Units, all of which have been duly and validly authorized and issued, and are fully paid and nonassessable. There are no options or agreements to which PSP is a party or by which it is bound calling for or requiring the issuance of additional Units.

4.4 Consents and Approvals; No Violation. Assuming approval of the Merger and of this Agreement by the limited partners of PSP, neither the execution and delivery of this Agreement nor the consummation by PSP of the transactions contemplated hereby will: (i) conflict with or result in any breach of any provision of its partnership agreement; (ii) require any consent, waiver, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority, except (A) in connection with the

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applicable requirements, if any, of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (B) pursuant to the applicable requirements of the federal securities laws and the rules and regulations promulgated thereunder, (C) the filing of the Certificate of Merger pursuant to the CRLPA, (D) as may be required by any applicable state securities or takeover laws, or (E) where the failure to obtain such consent, approval, authorization or permit, or to make such filing or notification, would not in the aggregate have a material adverse effect on PSP or adversely affect the ability of PSP to consummate the transactions contemplated hereby; (iii) result in a violation or breach of, or constitute a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, license, mortgage, agreement or other instrument or obligation to which PSP is a party or any of its properties or assets may be bound, except for such violations, breaches and defaults which, in the aggregate, would not have a material adverse effect on PSP or adversely affect the ability of PSP to consummate the transactions contemplated hereby; or (iv) assuming the consents, approvals, authorizations or permits and filings or notifications referred to in this Section 4.4 are duly and timely obtained or made, violate any order, writ, injunction, decree, statute, rule or regulation applicable to PSP or its properties or assets, except for violations which would not in the aggregate have a material adverse effect on PSP or adversely affect the ability of PSP to consummate the transactions contemplated hereby.

4.5 Litigation. There is no litigation, proceeding or governmental investigation which, individually or in the aggregate, is or may be material and adverse, pending or, to the knowledge of PSP, threatened against PSP or involving any of its properties or assets.

4.6 SEC Reports. Since January 1, 1998, PSP has filed all forms, reports and documents with the Securities and Exchange Commission ("SEC") required to be filed by it pursuant to the federal securities laws and the rules and regulations promulgated by the SEC thereunder, all of which complied in all material respects with all applicable requirements of the federal securities laws and such rules and regulations (collectively, the "PSP SEC Reports"). None of the PSP SEC Reports, including without limitation any financial statements or schedules included therein, at the time filed contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

4.7 Financial Statements. The financial statements included in the PSP SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with prior periods (except as otherwise noted therein), and present fairly the financial position of PSP as of their respective dates, and the results of operations of PSP for the periods presented therein (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments).

4.8 Absence of Certain Changes or Events. Since January 1, 2000, the business of PSP has been carried on only in the ordinary and usual course and there has not been any material adverse change in its business, results of operations or financial condition, or any damage or destruction in the nature of a casualty loss, whether covered by insurance or not, that would materially and adversely affect its properties, business or results of operations.

4.9 S-4 Registration Statement and Information Statement. None of the information supplied or to be supplied by PSP for inclusion or incorporation by reference in the S-4 Registration Statement or the Information

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Statement (as such terms are defined in Section 6.5 hereof) will (i) in the case of the S-4 Registration Statement, at the time it becomes effective and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or (ii) in the case of the Information Statement, at the time of the mailing of the Information Statement and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

4.10 Insurance. All material insurance of PSP is currently in full force and effect and PSP has reported all claims and occurrences to the extent required by such insurance.

4.11 Disclosure. The representations and warranties by PSP in this Agreement and any certificate or document delivered by it pursuant hereto do not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein or therein not misleading.

5. Representations, Warranties and Agreements of PSI. PSI hereby represents, warrants and agrees with PSP that:

5.1 Authorization. The execution, delivery and performance of this Agreement by PSI have been duly authorized and approved by all necessary corporate action of PSI, and PSI has all necessary corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to complete the transactions contemplated hereby.

5.2 Organization and Related Matters. PSI is a corporation duly organized, existing and in good standing under the laws of the State of California, with all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as and where now owned, leased, operated or carried on, as the case may be; and is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business carried on by it requires such qualification and where the failure to so qualify would have a material adverse effect on the business, properties, results of operations or financial condition of PSI.

5.3 Capital Stock. The authorized capital stock of PSI consists solely of (i) 200,000,000 shares of Common Stock (\$.10 par value), 113,636,305 of which were issued and outstanding as of September 30, 2001, (ii) 7,000,000 shares of Class B Common Stock (\$.10 par value), all of which were issued and outstanding as of September 30, 2001, (iii) 50,000,000 shares of Preferred Stock (\$.10 par value), 11,161,500 of which were issued and outstanding as of September 30, 2001 and (iv) 200,000,000 shares of Equity Stock (\$.01 par value), 4,523,220.338 of which were issued and outstanding at September 30, 2001. All of the issued and outstanding shares of Common Stock, Class B Common Stock, Preferred Stock and Equity Stock of PSI have been duly and validly authorized and issued, and are fully paid and nonassessable. The issuance of the PSI Shares in the Merger has been duly and validly authorized and, when issued and delivered as provided in this Agreement, the PSI Shares will have been duly and validly issued, fully paid and nonassessable; and the shareholders of PSI have no preemptive rights with respect to any shares of capital stock of PSI.

5.4 Consents and Approvals; No Violation. Neither the execution and delivery of this Agreement nor the consummation by PSI of the transactions contemplated hereby will: (i) conflict with or result in any breach of any

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provision of its Articles of Incorporation or Bylaws; (ii) require any consent, waiver, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority, except (A) in connection with the applicable requirements, if any, of the HSR Act, (B) pursuant to the applicable requirements of the federal securities laws and the rules and regulations promulgated thereunder, (C) the filing of the Certificate of Merger pursuant to the CRLPA, (D) as may be required by any applicable state securities or takeover laws, or (E) where the failure to obtain such consent, approval, authorization or permit, or to make such filing or notification, would not in the aggregate have a material adverse effect on PSI or adversely affect the ability of PSI to consummate the transactions contemplated hereby; (iii) result in a violation or breach of, or constitute a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, license, mortgage, agreement or other instrument or obligation to which PSI is a party or any of its properties or assets may be bound, except for such violations, breaches and defaults which, in the aggregate, would not have a material adverse effect on PSI or adversely affect the ability of PSI to consummate the transactions contemplated hereby; or (iv) assuming the consents, approvals, authorizations or permits and filings or notifications referred to in this Section 5.4 are duly and timely obtained or made, violate any order, writ, injunction, decree, statute, rule or regulation applicable to PSI or its properties or assets, except for violations which would not in the aggregate have a material adverse effect on PSI or adversely affect the ability of PSI to consummate the transactions contemplated hereby.

5.5 Litigation. There is no litigation, proceeding or governmental investigation which, individually or in the aggregate, is or may be material and adverse, pending or, to the knowledge of PSI, threatened against PSI or involving any of its properties or assets.

5.6 SEC Reports. Since January 1, 1998, PSI has filed all forms, reports and documents with the SEC required to be filed by it pursuant to the federal securities laws and the rules and regulations promulgated by the SEC thereunder, all of which complied in all material respects with all applicable requirements of the federal securities laws and such rules and regulations (collectively, the "PSI SEC Reports"). None of the PSI SEC Reports, including without limitation any financial statements or schedules included therein, at the time filed contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

5.7 Financial Statements. The financial statements included in PSI's SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with prior periods (except as otherwise noted therein), and present fairly the financial position of PSI as of their respective dates, and the results of operations of PSI for the periods presented therein (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments).

5.8 Absence of Certain Changes or Events. Since January 1, 2000, the business of PSI has been carried on only in the ordinary and usual course and there has not been any material adverse change in its business, results of operations or financial condition, or any damage or destruction in the nature of a casualty loss, whether covered by insurance or not, that would materially and adversely affect its properties, business or results of operations.

5.9 S-4 Registration Statement and Information Statement. None

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of the information supplied or to be supplied by PSI for inclusion or incorporation by reference in the S-4 Registration Statement or the Information Statement (as those terms are defined in Section 6.5 hereof) will (i) in the case of the S-4 Registration Statement, at the time it becomes effective and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or (ii) in the case of the Information Statement, at the time of the mailing of the Information Statement and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

5.10 Insurance. All material insurance of PSI is currently in full force and effect and PSI has reported all claims and occurrences to the extent required by such insurance.

5.11 Disclosure. The representations and warranties by PSI in this Agreement and any certificate or document delivered by it pursuant hereto do not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein or therein not misleading.

6. Covenants and Agreements.

6.1 Ordinary Course. Except as contemplated by this Agreement, during the period from the date of this Agreement to the Effective Time, each of PSI and PSP will carry on its business in the ordinary course in substantially the same manner as heretofore conducted and use all reasonable efforts to: (a) preserve intact its present business, organization and goodwill, (b) maintain all permits, licenses and authorizations required by applicable laws, and (c) keep available the services of its present employees and preserve its relationships with customers, suppliers, lenders, lessors, governmental entities and others having business or regulatory dealings with it. PSP will not issue any Units or debt securities convertible into Units. PSI and PSP will promptly notify the other of any event or occurrence not in the ordinary and usual course of business or which may have a material adverse effect on the properties or financial condition of such party.

6.2 Action by PSP. PSP will take all action necessary in accordance with applicable law as promptly as practicable to secure approval of this Agreement, it being understood that the principal terms of the Agreement must be approved by the affirmative vote of a majority of the outstanding Units.

6.3 Vote by PSI. PSI agrees to cause its subsidiary to vote its Units in favor of the Merger prior to the mailing of the Information Statement.

6.4 Acquisition Proposals. PSP will not initiate, solicit or encourage, directly or indirectly, any inquiries or the making of any proposal with respect to a merger, consolidation, share exchange or similar transaction involving PSP, or any purchase of all or any significant portion of its assets, or any equity interest in it, other than the transactions contemplated hereby (an "Acquisition Proposal"), or engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any person relating to an Acquisition Proposal; provided, however, that PSP's general partners may furnish or cause to be furnished information and may participate in such discussions and negotiations through its representatives with persons who have sought the same if the failure to provide such information or participate in such negotiations and discussions might cause the general partners of PSP to breach their fiduciary duty to the limited partners of PSP under applicable law as advised by counsel. PSP will notify PSI immediately if any such inquiries or proposals are received by, any such information is

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requested from, or any such negotiations or discussions are sought to be initiated or continued with PSP, and will keep PSI informed of the status and terms of any such proposals and any such negotiations or discussions.

6.5 Registration and Information Statement. PSP will promptly prepare and file with the SEC a preliminary information statement and notice of action without a meeting in connection with the approval of the Merger by the limited partners of PSP. PSI will, as promptly as practicable, prepare and file with the SEC a registration statement on Form S-4 (the "S-4 Registration Statement"), containing an information statement, notice of action without a meeting and prospectus, in connection with the registration under the Securities Act of 1933, as amended (the "Securities Act") of the PSI Shares to be issued to holders of Units in the Merger (such information statement, notice of action

without a meeting and prospectus, together with any amendments thereof or supplements thereto, in each case in the form or forms to be mailed to the limited partners of PSP, being herein called the "Information Statement"). PSI and PSP will use their best efforts to have or cause the S-4 Registration Statement to be declared effective as promptly as practicable, and also will take any other action required to be taken under federal or state securities laws, and PSP will use its best efforts to cause the Information Statement to be mailed to its limited partners at the earliest practicable date. PSP agrees that if at any time prior to the Effective Time any event with respect to PSP should occur which is required to be described in an amendment of, or a supplement to, the Information Statement or the S-4 Registration Statement, such event shall be so described, and such amendment or supplement shall be promptly filed with the SEC and, as required by law, disseminated to the limited partners of PSP and (ii) the Information Statement will (with respect to PSP) comply as to form in all material respects with the requirements of the federal securities laws. PSI agrees that (i) if at any time prior to the Effective Time any event with respect to PSI should occur which is required to be described in an amendment of, or a supplement to, the Information Statement or the S-4 Registration Statement, such event shall be so described, and such amendment or supplement shall be promptly filed with the SEC and, as required by law, disseminated to the limited partners of PSP and (ii) the Information Statement will (with respect to PSI) comply as to form in all material respects with the requirements of the federal securities laws.

6.6 Best Efforts. Each of PSI and PSP shall: (i) promptly make its respective filings and thereafter make any other required submissions under all applicable laws with respect to the Merger and the other transactions contemplated hereby; and (ii) use its best efforts to promptly take, or cause to be taken, all other actions and do, or cause to be done, all other things necessary, proper or appropriate to consummate and make effective the transactions contemplated by this Agreement as soon as practicable.

6.7 Registration and Listing of PSI Shares. PSI will use its best efforts to register the PSI Shares under the applicable provisions of the Securities Act and to cause the PSI Shares to be listed for trading on the NYSE upon official notice of issuance.

6.8 Distributions. PSP will not, at any time prior to the Effective Time, declare or pay any cash distributions to its limited partners, except (i) regular quarterly distributions at a quarterly rate not in excess of \$6.62 per Unit and (ii) distributions to limited partners of record immediately prior to the Effective Time in an aggregate amount equal to the amount by which the estimated Net Asset Value of PSP (as defined below) as of the Effective Time exceeds \$596 per Unit. For this purpose, the Net Asset Value of PSP is the sum of (a) PSP's share of the fair market value as of December 31, 2001 of the 33 improved properties in which PSP has an interest, as determined by appraisal by

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The Nicholson Group, Ltd., (b) the book value of PSP's non-real estate assets (excluding marketable securities) as of the date of determination and (c) the fair value of PSP's partnership interests in PS Business Parks, L.P. based on the average of the per share closing prices on the American Stock Exchange of the shares of common stock of PS Business Parks, Inc. during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Time and less (d) PSP's liabilities as of the date of determination. The determination of book value and liabilities shall be from PSP's financial statements prepared in accordance with generally accepted accounting principles on a basis consistent with prior periods.

7. Conditions.

7.1 Conditions to Each Party's Obligations. The respective obligations of each party to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Closing of each of the following conditions, any or all of which may be waived in whole or in part, to the extent permitted by applicable law:

7.1.1 Limited Partner Approval. This Agreement and the transactions contemplated hereby shall have been duly approved by the limited partners of PSP as contemplated by Section 6.2.

7.1.2 Governmental and Regulatory Consents. All filings required to be made prior to the Effective Time with, and all consents, approvals, permits and authorizations required to be obtained prior to the Effective Time from, governmental and regulatory authorities in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby (including the expiration of the waiting period requirements of the HSR Act) shall have been made or obtained (as the case may be) without material restrictions, except where the failure to obtain such consents, approvals, permits and authorizations could not reasonably be expected to have a material adverse effect on PSI or PSP.

7.1.3 Litigation. No court or governmental or regulatory authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) or taken any action which prohibits the consummation of the transactions contemplated by this Agreement and no legal action challenging such transactions shall be pending.

7.1.4 Registration Statement. The S-4 Registration Statement shall have been declared effective and no stop order suspending effectiveness shall have been issued, no action, suit, proceeding or investigation by the SEC to suspend the effectiveness thereof shall have been initiated and be continuing, and all necessary approvals under federal and state securities laws relating to the issuance or trading of the PSI Shares shall have been received.

7.1.5 Listing of PSI Shares on NYSE. The PSI Shares shall have been approved for listing on the NYSE upon official notice of issuance.

7.1.6 Fairness Opinion. PSP shall have received the opinion of Robert A. Stanger & Co., Inc. in form and substance satisfactory to it to the effect that the consideration to be received by the public limited partners of PSP in the Merger is fair to such public limited partners from a financial point of view, and such opinion shall not have been withdrawn or revoked.

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7.2 Conditions to Obligations of PSI. The obligations of PSI to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Closing of the following conditions, which may be waived in whole or in part by PSI to the extent permitted by applicable law:

7.2.1 Accuracy of Representations; Performance of Agreements. Each of the representations and warranties of PSP contained in this Agreement shall be true and correct in all material respects at and as of the Closing Date as if made at and as of the Closing Date (except to the extent they relate to a particular date) and PSP shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing.

7.2.2 Certificate of General Partners. PSI shall have received such certificates of the general partners of PSP as PSI may reasonably request in connection with the Closing, to the effect that, to the best of their knowledge, all representations and warranties of PSP contained in this Agreement are true and correct in all material respects at and as of the Closing Date as if made at and as of the Closing Date, and PSP has performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by PSP at or prior to the Closing.

7.2.3 Title to Properties; Environmental Audits. PSI in its sole discretion shall be satisfied as to the status of title to (including the existence and effect of liens and encumbrances), and the results of an environmental audit of, each of the real properties owned by PSP.

7.2.4 Trading Price of PSI Shares. The average of the per share closing prices of the PSI Shares on the NYSE during the 20 consecutive trading days ending on the fifth trading day prior to the Effective Time (the "Average PSI Share Price") shall be not less than \$34.

7.3 Conditions to Obligations of PSP. The obligations of PSP to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Closing of the following conditions, which may be waived in whole or in part by PSP to the extent permitted by applicable law.

7.3.1 Accuracy of Representations; Performance of Agreements. Each of the representations and warranties of PSP contained in this Agreement shall be true and correct in all material respects at and as of the Closing Date as if made at and as of the Closing Date (except to the extent they relate to a particular date) and PSI shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing.

7.3.2 Certificate of Officers. PSP shall have received such certificates of officers of PSI as PSP may reasonably request in connection with the Closing, including upon request a certificate satisfactory to PSP of the Chief Executive Officer and the Chief Financial Officer of PSI, to the effect that, to the best of their knowledge, all representations and warranties of PSI contained in this Agreement are true and correct in all material respects at and as of the Closing Date as if made at and as of the Closing Date, and PSI has performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing.

8. Termination.

8.1 Termination by Mutual Consent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, before or after limited partner approval, by the mutual written consent of

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PSI and PSP.

8.2 Termination by PSI or PSP. This Agreement may be terminated and the Merger may be abandoned by action of the Board of Directors of PSI or by the general partners of PSP if (i) the Merger shall not have been consummated by December 31, 2002 (provided that the right to terminate this Agreement under this Section 8.2 shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of or resulted in the failure of the Merger to occur on or before such date); (ii) any court of competent jurisdiction in the United States or some other governmental body or regulatory authority shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action shall have become final and nonappealable; or (iii) the limited partners of PSP shall have failed to approve this Agreement and the transactions contemplated hereby.

8.3 Termination by PSI. This Agreement may be terminated by PSI, and the Merger may be abandoned at any time prior to the Effective Time, as to the defaulting party if (i) PSP shall have failed to comply in any material respect with any of the covenants, conditions or agreements contained in this Agreement to be complied with or performed by such party at or prior to such date of termination, which failure to comply has not been cured within five business days following notice to such party of such failure to comply, or (ii) any representation or warranty of PSP contained in this Agreement shall not be true in all material respects when made, which inaccuracy or breach (if capable of cure) has not been cured within five business days following notice to PSP of the inaccuracy or breach, or on and as of the Closing as if made on and as of the Closing Date.

8.4 Termination by PSP. This Agreement may be terminated by PSP and the Merger may be abandoned at any time prior to the Effective Time, before or after limited partner approval, if (i) PSI shall have failed to comply in any material respect with any of the covenants, conditions or agreements contained in this Agreement to be complied with or performed by PSI at or prior to such date of termination, which failure to comply has not been cured within five business days following notice to PSI of such failure to comply, or (ii) any representation or warranty of PSI contained in this Agreement shall not be true in all material respects when made, which inaccuracy or breach (if capable of cure) has not been cured within five business days following notice to PSI of the inaccuracy or breach, or on and as of the Closing as if made on and as of the Closing Date.

8.5 Effect of Termination and Abandonment. In the event of termination of this Agreement and abandonment of the Merger pursuant to this Section 8, no party (or any directors, officers, employees, agents or representatives of any party) shall have any liability or further obligation to any other party or any person who controls a party within the meaning of the Securities Act, except as provided in Section 9.1 and except that nothing herein will relieve any party from liability for any breach of this Agreement.

9. Miscellaneous.

9.1 Payment of Expenses. If the Merger is consummated, PSI shall pay all the expenses incident to preparing for, entering into and carrying out this Agreement and the consummation of the transactions contemplated hereby. If the Merger is not consummated, each of PSI and PSP shall pay its own expenses, except that any expenses incurred in connection with the printing of the S-4 Registration Statement and the Information Statement, the real estate appraisals and environmental audits of the properties of PSP and preparation for real estate closings, and any filing fees under the HSR Act, the Securities Act and

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the Securities Exchange Act of 1934, as amended shall be paid 50% by PSI and 50% by PSP.

9.2 Survival of Representations, Warranties and Covenants. The respective representations and warranties of PSI and PSP contained herein or in any certificate or document delivered pursuant hereto shall expire with and be terminated and extinguished by the effectiveness of the Merger and shall not survive the Effective Time. The sole right and remedy arising from a misrepresentation or breach of warranty, or from the failure of any of the conditions to be met, shall be the termination of this Agreement by the other party. This Section 9.2 shall not limit any covenant or agreement of the parties, which by its terms contemplates performance after the Effective Time.

9.3 Modification or Amendment. The parties may modify or amend this Agreement by written agreement authorized by the Board of Directors of PSI and the general partners of PSP and executed and delivered by the parties; provided, however, that after approval of this Agreement by the limited partners of PSP, no amendment shall be made which changes any of the principal terms of the Merger or this Agreement, without the approval of such limited partners.

9.4 Waiver of Conditions. The conditions to each of the parties' obligations to consummate the Merger are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law.

9.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without giving effect to the principles of conflict of laws thereof.

9.6 Interpretation. This Agreement has been negotiated by the parties and is to be interpreted according to its fair meaning as if the parties had prepared it together and not strictly for or against any party. Each of the capitalized terms defined in this Agreement shall, for all purposes of this Agreement (and whether defined in the plural and used in the singular, or vice versa), have the respective meaning assigned to such term in the Section in which such meaning is set forth. References in this Agreement to "parties" or a "party" refer to parties to this Agreement unless expressly indicated otherwise. At each place in this Agreement where the context so requires, the masculine, feminine or neuter gender includes the others and the singular or plural number includes the other. "Including" means "including without limitation."

9.7 Headings. The descriptive headings contained in the Sections and subsections of this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

9.8 Parties in Interest. This Agreement, and the rights, interests and obligations created by this Agreement, shall bind and inure to the benefit of the parties and their respective successors and permitted assigns, and shall confer no right, benefit or interest upon any other person, including shareholders of the respective parties.

9.9 Notices. All notices or other communications required or permitted under this Agreement shall be in writing and shall be delivered personally or sent by U.S. mail, postage prepaid, addressed as follows or such other address as the party to be notified has furnished in writing by a notice given in accordance with this Section 9.9:

If to PSI or to Sub:

Public Storage, Inc.

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701 Western Avenue
Glendale, California 91201-2397
Attention: Harvey Lenkin
President

If to PSP:

PS Partners V, Ltd., a California Limited Partnership
c/o Public Storage, Inc.
701 Western Avenue
Glendale, California 91201-2397
Attention: Harvey Lenkin
President

Any such notice or communication shall be deemed given as of the date of delivery, if delivered personally, or on the second day after deposit with the U.S. Postal Service, if sent by U.S. mail.

9.10 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall be considered one and the same agreement.

9.11 Assignment. No rights, interests or obligations of either party under this Agreement may be assigned or delegated without the prior written consent of the other party.

9.12 Entire Agreement. This Agreement embodies the entire agreement and understanding between the parties pertaining to the subject matter hereof, and supersedes all prior agreements, understandings, negotiations, representations and discussions, whether written or oral.

9.13 Severable Provisions. If any of the provisions of this Agreement may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially enforceable provisions to the extent enforceable, shall nevertheless be binding and enforceable.

IN WITNESS WHEREOF, the parties have entered into this Agreement as of the date first above written.

PUBLIC STORAGE, INC.

By: /s/ HARVEY LENKIN

Harvey Lenkin
President

PS PARTNERS V, LTD.,
a California Limited Partnership

By: Public Storage, Inc.,
General Partner

By: /s/ HARVEY LENKIN

Harvey Lenkin
President

By: /s/ B. WAYNE HUGHES

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B. Wayne Hughes
General Partner

PS PARTNERS V MERGER CO., INC.

By: /s/ HARVEY LENKIN

Harvey Lenkin
President

Appendix B

[Letterhead of The Nicholson Group, Inc]

February 22, 2002

PS Partners V, Ltd. and
Public Storage, Inc.
701 Western Avenue, Suite 200
Glendale, California 91201-2397

Re: PS Partners V, Ltd.
(a portfolio of 33 self storage properties)

Gentlemen:

We have completed a limited appraisal of the aggregate Market Value of the fee simple estate in a portfolio of 33 self-storage properties owned by PS Partners V, Ltd. and submit our findings in this brief letter appraisal report. We understand that our valuation opinion will be utilized in conjunction with the proposed acquisition of PS Partners V's ownership interest in the subject portfolio of properties by Public Storage, Inc. The intended users of this report are PS Partners V, Ltd. and Public Storage, Inc. (clients) as well as Robert A. Stanger & Company, Inc. (in their capacity as advisor to PS Partners V, Ltd. in this proposed transaction). We agree that this report may be included in an information statement sent to partners of PS Partners V, Ltd. in connection with the proposed transaction; however, no third parties are authorized to rely upon our value opinion and appraisal report without the express written consent of The Nicholson Group, LLC.

As agreed, this report is the result of a limited appraisal process in that certain allowable departures from specific guidelines of the Uniform Standards of Professional Appraisal Practice were invoked. This appraisal is limited in that we have inspected ten of the thirty-three properties in order to ascertain and verify reported physical condition, unit mix, and rental rates. Our inspections indicated that the information provided by Public Storage, Inc. regarding these properties was accurate and reliable. Our appraisal is further limited in that we have relied primarily upon the Income Capitalization Approach in arriving at our value opinion. Given the income-producing nature of the subject properties, the Income Capitalization Approach, as described below, is considered the most applicable approach to value.

Historical operating statements, unit mix, net rentable areas, rental rates, capital expenditure estimates and other property-specific data for the portfolio of properties appraised were furnished by Public Storage, Inc. This information has been accepted as correctly representing operations and conditions of the

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subject properties.

Market Value is defined as:

the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Fee Simple Estate is defined as:

an absolute fee, free of limitations to any particular class of heirs or restrictions, but subject to the limitations of eminent domain, escheat, police power, and taxation.

Summary of Methodology:

In valuing the properties, we considered the applicability of all three commonly recognized approaches to value: the Cost Approach, the Income Capitalization Approach and the Sales Comparison Approach. The type and age of a property, market conditions and the quantity and quality of data affect the applicability of each approach in a specific appraisal situation. We did not consider the Cost Approach to be applicable to the Properties.

The Income Capitalization Approach estimates a property's capacity to produce income through an analysis of the rental market, operating expenses and net operating income. Net operating income may then be processed into a value estimate through either (or a combination) of two methods: direct capitalization or yield capitalization, i.e., a discounted cash flow analysis.

The Sales Comparison Approach is based upon the principle of substitution, that is, that an informed purchaser would pay no more for a property than the cost of acquiring an existing property with the same utility. The Sales Comparison Approach establishes what typical investors in the marketplace are willing to pay for the subject properties based on amounts paid for similar-type properties.

The Cost Approach is based on the estimated market value of the site as if vacant plus the depreciated replacement cost of the existing improvements. The Cost Approach was not considered appropriate in the case of the properties since: (a) today's investors generally do not rely upon the Cost Approach in making investment decisions for older properties; and, (b) the necessity of

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estimating total accrued depreciation in buildings of the type and age of the subject properties diminishes the validity of this approach.

While the appraisal was prepared for all of the properties as a whole, we analyzed the individual properties by: (a) reviewing each property's previous three years' operating statements that were provided by management; (b) reviewing information submitted by on-site managers which included competitive rental surveys, subject facility descriptions, rental rates, area trends and other factors; and, (c) developing information from a variety of sources about market conditions for each individual property that included population, employment and housing trends within the market. We independently verified the competitive property rental rates via telephone.

We performed site inspections for a representative number of the properties, verifying physical condition (including necessary reserves for deferred maintenance) and discussing maintenance requirements with property management. Additionally we reviewed evaluations for each property and interviewed management personnel responsible for the properties to ascertain competitive conditions, area economic trends affecting the properties and historical operating revenues and expenses and items of deferred maintenance.

We then estimated the value of each of the properties relying heavily upon the Income Capitalization Approach. To define the occupancy and rental rate and expense escalators to be used in developing cash flow projections, we reviewed the acquisition criteria and projection parameters in use in the marketplace by major mini-warehouse investors, owners and operators, appraisers and financing sources. In addition, we reviewed other published surveys and information concerning acquisition criteria in use by property investors.

Further, we gathered and reviewed sales of mini-warehouse properties throughout the country within the past 24 months in order to derive certain valuation indicators. Sources for data concerning such transactions included local appraisers, property owners, real estate brokers and others. We also reviewed information compiled by Public Storage management identifying sales and acquisitions of mini-warehouses.

Following these reviews, a stabilized level of operating performance was projected for each property. The value estimate by the Income Capitalization Approach was made using direct capitalization and a discounted cash flow analysis.

In applying the discounted cash flow analysis, cash flow projections for each property (assuming no indebtedness) were developed for a ten-year period with a residual value computed at the end of year ten. The first year's scheduled gross income was estimated taking into consideration each property's current rent structure and the rental rates of competitive facilities. Also included in the income estimate were trends in ancillary income. We then analyzed each subject's occupancy history, local market conditions and estimated a stabilized occupancy level for each property.

Estimated expenses were based upon an analysis of each property's actual operating history. The projected expenses were tested for reasonableness based upon a comparison of operating expense ratios to market norms. Expenses were deducted from effective gross income to derive a net operating income for each property. Consideration was given, and adjustments made, to reflect replacement reserves. Income and expense growth rates and terminal capitalization rates were based on projection parameters currently being used by property investors as well as upon local, regional and historical trends. We then capitalized each property's eleventh year net operating income into a residual value at the end

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of a ten-year holding period and assumed a normal cost of disposing of the properties. The ten yearly cash flows were then discounted to present worth.

In applying the Sales Comparison Approach to the properties, we analyzed 72 mini-warehouse property sales that occurred throughout the nation during the past two years. Using a regression analysis, a strong correlation was derived between the comparable property net operating incomes and sale prices per square foot.

In addition, we reviewed capitalization rates and purchase prices paid in recent transactions of properties similar to the properties involving Public Storage and others and have concluded that the subject properties are reasonably and appropriately valued relative to these other portfolio transactions.

Based upon a correlation of these methodologies, we arrived at an opinion of value for the subject portfolio of properties. An adjustment in value was considered for each property and was made as appropriate for capital expenditures necessary due to deferred maintenance items. Utilizing this methodology, in our opinion, we have performed actions necessary to ensure a fair valuation of the subject portfolio.

Assets included within the scope of our valuation include land, land improvements, building improvements and all fixed building service equipment. Assets excluded are furniture, fixtures, machinery and equipment, personal property, inventory, and intangible or other business-related assets.

We have made no investigation of, nor assume any responsibility for, the existence or impact of any deferred maintenance, structural repairs or hazardous substances, which may or may not be present on the properties, in the development of our limited appraisal opinion.

Based upon the investigations and analyses as described, it is our opinion, as of December 31, 2001, that the aggregate market value of the fee simple estate in the PS Partners V, Ltd. 33-property portfolio, is:

ONE HUNDRED EIGHT MILLION FOUR HUNDRED THOUSAND DOLLARS
(\$108,400,000)

The market value estimate set forth herein assumes that the portfolio of properties would be disposed of in an orderly manner, allowing sufficient time for exposure on the open market.

This brief appraisal letter report is also referred to as a Restricted Appraisal Use Report and is intended to comply with the reporting requirements set forth under Standards Rule 2-2(c) of the Uniform Standards of Professional Appraisal Practice for a Restricted Use Appraisal Report. As such, it does not include detailed discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this brief report is specific to the needs of the client and for the intended use stated above. The appraiser is not responsible for unauthorized use of this report.

Attached to this letter report please find the following exhibits:

Exhibit A - Assumptions and Limiting Conditions
 B - Appraisal Certification

Respectfully submitted,
THE NICHOLSON GROUP LLC

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/s/ Lawrence R. Nicholson

Lawrence R. Nicholson, CRE, MAI

Professional Assistance By:

Ann Loomans
Michael Axler, MAI
John Trabold, MAI
David Johnsen, MAI
Gilbert Weiger, MAI

attachments

01-099

EXHIBIT A
Assumptions and Limiting Conditions

As agreed upon with the clients prior to the preparation of this appraisal, this is a Limited Appraisal; it invokes the Departure Provision of the Uniform Standards of Professional Appraisal Practice ("USPAP"). The reliability of the value conclusion provided may be impacted to the degree that there is departure from specific guidelines of USPAP.

This is a Restricted Use Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(c) of the Uniform Standards of Professional Appraisal Practice for a Restricted Use Appraisal Report. As such, it does not include detailed discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated above. The appraiser is not responsible for unauthorized use of this report.

No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the property appraised. The appraisal presumes, unless otherwise noted, that the owner's claim is valid, the property rights are good and marketable, and there are no encumbrances which cannot be cleared through normal processes.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others which have been used in formulating this analysis.

No soil analysis or geological studies were ordered or made in conjunction with this report, nor were any water, oil, gas, coal, or other subsurface mineral and use rights or conditions investigated.

Substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials could, if present, adversely affect the value of the property. Unless otherwise stated in this report, the existence of hazardous substance, which may or may not be present on or in the property, was not considered by the appraiser in the development of

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the conclusion of value. The stated value estimate is predicated on the assumption that there is no material on or in the property that would cause such a loss in value. No responsibility is assumed for any such conditions, and the client has been advised that the appraiser is not qualified to detect such substances, quantify the impact on values, or develop the remediation cost.

Assumptions and Limiting Conditions, Continued

No environmental impact study has been ordered or made. Full compliance with applicable federal, state, and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, state, or national government or private entity organization either have been or can be obtained or renewed for any use which the report covers.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless a nonconformity has been stated, defined, and considered in the appraisal report. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the property described and that no encroachment or trespass exists unless noted in the report.

The value or values presented in this report are based upon the premises outlined herein and are valid only for the purpose or purposes stated.

The date of value to which the conclusions and opinions expressed apply is set forth in this report. The value opinion herein rendered is based on the status of the national business economy and the purchasing power of the U.S. dollar as of that date.

Testimony or attendance in court or at any other hearing is not required by reason of this appraisal unless arrangements are previously made within a reasonable time in advance.

One or more of the signatories of this appraisal report is a member or candidate of the Appraisal Institute. The Bylaws and Regulations of the Institute require each member and candidate to control the use and distribution of each appraisal report signed by them.

Except as specifically presented in the letter of transmittal, possession of this report or any copy thereof does not carry with it the right of publication. No portion of this report (especially any conclusion of value, the identity of the appraiser or the firm with which he/she is connected, or any reference to the Appraisal Institute or the designations awarded by this organization) shall be disseminated to the public through prospectus, advertising, public relations, news, or any other means of communication without the written consent and approval of The Nicholson Group LLC.

EXHIBIT B Appraisal Certification

I certify that, to the best of my knowledge and belief:

- o the statements of fact contained in this report are true and correct.
- o the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my

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personal, impartial and unbiased professional analyses, opinions and conclusions.

- o I have no present or prospective interest in the properties that are the subject of this report, and no personal interest with respect to the parties involved.
- o I have no bias with respect to the properties that are the subject of this report or the parties involved with the assignment.
- o my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- o my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- o my analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute and in conformity with the Uniform Standards of Professional Appraisal Practice.
- o I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized individuals.
- o Ten of the thirty-three subject properties were inspected as part of our appraisal process (PS #'s 24501, 24502, 24503, 24503, 24505, 24511, 24512, 24519, 24520, and 24521); the remaining twenty-three properties were not inspected.
- o Ann Loomans, Michael Axler, MAI, John Trabold, MAI, David Johnsen, MAI and Gilbert Weiger, MAI provided significant real property appraisal assistance to the person signing this certification.
- o I certify that as of the date of this report, I have completed the requirements under the continuing education program of the Appraisal Institute.

/s/ Lawrence R. Nicholson

Lawrence R. Nicholson, CRE, MAI

Appendix C

[Letterhead of Robert A. Stanger & Co., Inc.]

PS Partners V, LTD.
701 Western Avenue, Suite 200
Glendale, CA 91201-2397

Gentlemen:

We have been advised that PS Partners V, LTD. (the "Partnership"), a California Limited Partnership, is entering into a transaction (the

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"Transaction") in which the Partnership will be merged with a subsidiary of Public Storage, Inc. ("PSI"), an affiliated, publicly traded real estate investment trust. In the Transaction, the limited partners of the Partnership (the "Limited Partners") will be offered the option of converting their interests in the Partnership (the "Units") into \$596 of cash per Unit or shares of PSI Common Stock with an equivalent market value based upon the average closing price of the PSI Common Stock on the New York Stock Exchange during the 20 consecutive trading days ending five trading days prior to the closing date of the Transaction (collectively, the "Consideration"). We have been further advised that the Unit price offered to the Limited Partners is equivalent to the net asset value per Unit based in part on an independent appraisal of the Partnership's properties. We also have been advised that additional distributions will be made to the Limited Partners prior to the consummation of the Transaction to the extent required to cause the Partnership's net asset value per Unit as of the closing date of the Transaction to be substantially equivalent to the estimate of the Partnership's net asset value per Unit as contained in the Information Statement to be filed with the Securities and Exchange Commission and that in computing the Partnership's net asset value per Unit as of the closing date of the Transaction, the Partnership's interest in PS Business Parks, Inc. will be valued at the average of the per share closing price on the American Stock Exchange of the shares of PS Business Parks Inc.'s common stock during the 20 consecutive trading days ending on the fifth trading day prior to the closing date of the Transaction.

The Partnership has requested that Robert A. Stanger & Co., Inc. ("Stanger") provide its opinion as to the fairness to the Limited Partners (excluding PSI or its affiliates), from a financial point of view, of the Consideration to be received in the Transaction.

In the course of our review to render this opinion, we have, among other things:

- o Reviewed a draft of the Information Statement related to the Transaction in substantially the form to be filed with the Securities and Exchange Commission (the "SEC") and provided to Limited Partners;
- o Reviewed the Partnership's and PSI's financial statements contained in Form 10-K filed with the SEC for the years ending December 31, 1998, 1999, and 2000, and the Form 10-Q for the nine-month period ending September 30, 2001, which reports the Partnership's management and PSI's management have indicated to be the most current financial statements available;
- o Reviewed the MAI-certified appraised value of the property portfolio owned by the Partnership as of December 31, 2001 prepared by The Nicholson Group, Ltd. (the "Appraisal");
- o Reviewed information regarding purchases and sales of self-storage properties by PSI or any affiliated entities and other information available relating to acquisition criteria for self-storage properties;
- o Reviewed internal financial analyses and forecasts prepared by the Partnership, and based in part on the Appraisal, of the current net liquidation value per Unit of the Partnership's assets and projections of cash flow from operations, cash flow distributions and going-concern values per Unit for the

Partnership, including the Partnership's calculation of the

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allocation of such values between the joint venture partners and between the limited and general partners;

- o Discussed with certain members of management of the Partnership and PSI conditions in self-storage property markets, conditions in the market for sales/acquisitions of properties similar to those owned by the Partnership, current and projected operations and performance, and the financial condition and future prospects of the Partnership and PSI;
- o Reviewed historical market prices, trading volume and dividends for PSI Common Stock, and secondary market transactions involving interests in the Partnership; and
- o Conducted other studies, analyses, inquiries and investigations as we deemed appropriate.

In rendering this fairness opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all financial and other information contained in the Information Statement or that was furnished or otherwise communicated to us by the Partnership and PSI. We have not performed an independent appraisal of the assets and liabilities of PSI, the Partnership or any joint ventures and have relied upon and assumed the accuracy of the restricted appraisal and adjustments included therein, including but not limited to the amount and timing of deferred maintenance items, performed by The Nicholson Group, Ltd. We have also relied on the assurance of the Partnership and PSI that any pro forma financial statements, projections, budgets, estimates of deferred maintenance or environmental liability, or value estimates contained in the Information Statement or otherwise provided to us, were reasonably prepared on bases consistent with actual historical experience and reflect the best currently available estimates and good faith judgments; that the allocation of Consideration to the Limited Partners has been determined by the Partnership in accordance with the provisions of the joint venture and Partnership Agreements in the same manner they would be allocated upon the joint ventures' and partnership's liquidation; that no material changes have occurred in the appraised value of the properties or the information reviewed between the date of the Appraisal or the date of the other information provided and the date of this letter; and that the Partnership and PSI are not aware of any information or facts that would cause the information supplied to us to be incomplete or misleading in any material respect.

We have not been requested to, and therefore did not: (i) select the method of determining the Consideration offered in the Transaction; (ii) make any recommendation to the Limited Partners of the Partnership as to whether to select the cash or Common Stock option in the Transaction; or (iii) express any opinion as to the business decision to effect the Transaction, alternatives to the Transaction, or tax factors resulting from the Transaction or relating to PSI's continued qualification as a REIT. Our opinion is based on business, economic, real estate and securities markets, and other conditions as of the date of our analysis and addresses the Transaction in the context of information available as of the date of our analysis. Events occurring after that date may materially affect the assumptions used in preparing the opinion.

Based upon and subject to the foregoing, and in reliance thereon, it is our opinion that as of the date of this letter the Consideration to be received in the Transaction is fair to the public Limited Partners of the Partnership from a financial point of view.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. We have advised the Partnership that our entire analysis must be considered as a whole and that selecting portions of our analysis and the factors considered by us,

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without considering all analyses and facts, could create an incomplete view of the evaluation process underlying this opinion.

Yours truly,

/s/ Robert A. Stanger & Co., Inc.

Robert A. Stanger & Co., Inc.
Shrewsbury, NJ
March 7, 2002

Appendix D

Proposed Amendment to Partnership Agreement

Add a new section 13.5 to the partnership agreement of PS Partners V, Ltd., a California Limited Partnership that would read in its entirety as follows:

13.5 Merger. Notwithstanding anything in the Agreement to the contrary, the Partnership may merge with PSI or a subsidiary, provided that such merger is approved by a Majority Vote.

Appendix E

PS PARTNERS V, LTD.
a California Limited Partnership

FINANCIAL STATEMENTS OF THE PARTNERSHIP

Financials at September 30, 2001

Condensed Balance Sheets at September 30, 2001 and December 31, 2000
Condensed Statements of Income for the Three and Nine Months Ended
September 30, 2001 and 2000
Condensed Statements of Cash Flows for the Nine Months Ended
September 30, 2001 and 2000
Notes to Condensed Financial Statements

Financials at December 31, 2000

PS Partners V, Ltd.

Report of Independent Auditors

Financial Statements:

Balance Sheets as of December 31, 2000 and 1999 6 For the years ended
December 31, 2000, 1999 and 1998:
Statements of Income
Statements of Partners' Equity
Statements of Cash Flows
Notes to Financial Statements

Financial Statements of 50 percent or less owned persons required pursuant to Rule 3-09:

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PS Business Parks, Inc. - PS Business Parks, Inc. is a registrant with the Securities and Exchange Commission and its filings can be accessed through the Securities and Exchange Commission.

SEI/PSP V Joint Ventures

Report of Independent Auditors

Financial Statements:

Balance Sheets as of December 31, 2000 and 1999 17 For the Years

Ended December 31, 2000, 1999 and 1998:

Statements of Income

Statements of Partners' Equity

Statements of Cash Flows

Notes to Financial Statements

PS PARTNERS V, LTD. CONDENSED BALANCE SHEETS

| | September 30, 2001 ----- (Unaudited) |
|------------------------------------|---|
| ASSETS | |
| Cash and cash equivalents | \$2,641,000 |
| Rent and other receivables | 186,000 |
| Real estate facility, at cost: | |
| Land | 574,000 |
| Buildings and equipment | 1,022,000 |
| | ----- |
| | 1,596,000 |
| Less accumulated depreciation | (632,000) |
| | ----- |
| | 964,000 |
| Investment in real estate entities | 31,547,000 |
| Other assets | 33,000 |
| | ----- |
| | \$35,371,000 ===== |

LIABILITIES AND PARTNERS' EQUITY

| | |
|-------------------------------|----------|
| Accounts payable | \$44,000 |
| Advance payments from renters | 5,000 |

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Partners' equity:

| | |
|--|--------------|
| Limited partners' equity, \$500 per unit, 148,000 units authorized, issued and outstanding | 34,873,000 |
| General partner's equity | 449,000 |
| | ----- |
| Total partners' equity | 35,322,000 |
| | ----- |
| | \$35,371,000 |
| | ===== |

See accompanying notes.
Appendix E - Page 1

PS PARTNERS V, LTD.
CONDENSED STATEMENTS OF INCOME
(UNAUDITED)

| | Three Months Ended September 30, | | |
|---|-------------------------------------|-------------|-------|
| | 2001 | 2000 | 2000 |
| | ----- | | |
| REVENUE: | | | |
| Rental income | \$81,000 | \$79,000 | \$ |
| Equity in earnings of real estate entities | 1,453,000 | 1,273,000 | 4, |
| Interest income | 22,000 | 59,000 | |
| | ----- | | |
| | 1,556,000 | 1,411,000 | 4, |
| | ----- | | |
| COSTS AND EXPENSES: | | | |
| Cost of operations | 26,000 | 24,000 | |
| Management fees | 5,000 | 5,000 | |
| Depreciation and amortization | 16,000 | 13,000 | |
| Administrative | 27,000 | 25,000 | |
| | ----- | | |
| | 74,000 | 67,000 | |
| | ----- | | |
| NET INCOME | \$1,482,000 | \$1,344,000 | \$4, |
| | ===== | | |
| Limited partners' share of net income (\$26.78 per unit in 2001 and \$21.43 per unit in 2000) | | | \$3, |
| General partner's share of net income | | | ----- |
| | | | \$4, |
| | | | ===== |

See accompanying notes.

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PS PARTNERS V, LTD.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months September |
|---|--------------------------|
| | 2001 |
| Cash flows from operating activities: | |
| Net income | \$4,328,000 |
| Adjustments to reconcile net income to net cash Provided by operating activities | |
| Depreciation and amortization | 45,000 |
| Decrease in rent and other receivables | 100,000 |
| Decrease (increase) in other assets | 1,000 |
| Decrease in accounts payable | (34,000) |
| (Decrease) increase in advance payments from renters | (3,000) |
| Equity in earnings of real estate entities | (4,278,000) |
| | ----- |
| Total adjustments | (4,169,000) |
| | ----- |
| Net cash provided by operating activities | 159,000 |
| | ----- |
| Cash flows from investing activities: | |
| Distributions from real estate entities | 3,435,000 |
| Additions to real estate facility | (6,000) |
| | ----- |
| Net cash provided by investing activities | 3,429,000 |
| | ----- |
| Cash flows from financing activities: | |
| Distributions to partners | (3,247,000) |
| | ----- |
| Net cash used in financing activities | (3,247,000) |
| | ----- |
| Net increase (decrease) in cash and cash equivalents | 341,000 |
| Cash and cash equivalents at the beginning of the period | 2,300,000 |
| | ----- |
| Cash and cash equivalents at the end of the period | \$2,641,000 |

=====

See accompanying notes.
Appendix E - Page 3

PS PARTNERS V, LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(UNAUDITED)

1. The accompanying unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures contained herein are adequate to make the information presented not misleading. These unaudited condensed financial statements should be read in conjunction with the financial statements and related notes appearing in the Partnership's Form 10-K for the year ended December 31, 2000.
2. In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of only normal accruals, necessary to present fairly the Partnership's financial position at September 30, 2001, the results of operations for the three and nine months ended September 30, 2001 and 2000 and cash flows for the nine months then ended.
3. The results of operations for the three and nine months ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year.
4. In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 by Statement of Financial Accounting Standards No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. The Partnership adopted SFAS 133, as amended by SFAS 138, on January 1, 2001, and the adoption had no material impact on the Partnership's consolidated financial statements.
5. Summarized combined financial data with respect to the Real Estate Entities is as follows:

| | Nine Months Ended September 30, 2001 | 2000 |
|----------------------------------|---|---------------|
| Total revenues..... | \$137,168,000 | \$124,198,000 |
| Minority interest in income..... | \$19,743,000 | \$18,391,000 |
| Net income..... | \$43,471,000 | \$39,348,000 |

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The Partners
PS Partners V, Ltd.,
A California Limited Partnership

We have audited the balance sheets of PS Partners V, Ltd., a California Limited Partnership as of December 31, 2000 and 1999 and the related statements of income, partners' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PS Partners V, Ltd., a California Limited Partnership, at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

March 23, 2001
Los Angeles, California

Appendix E - Page 5

PS PARTNERS V, LTD.
a California Limited Partnership
BALANCE SHEETS
December 31, 2000 and 1999

2000

ASSETS

Cash and cash equivalents

\$ 2,300,

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| | |
|------------------------------------|------------|
| Rent and other receivables | 286, |
| Real estate facility, at cost: | |
| Land | 574, |
| Buildings and equipment | 1,016, |
| | ----- |
| | 1,590, |
| Less accumulated depreciation | (587, |
| | ----- |
| | 1,003, |
| Investment in real estate entities | 30,704, |
| Other assets | 34, |
| | ----- |
| | \$ 34,327, |
| | ===== |

LIABILITIES AND PARTNERS' EQUITY

| | |
|---|------------|
| Accounts payable | \$ 78, |
| Advance payments from renters | 8, |
| Partners' equity: | |
| Limited partners' equity, \$500 per unit, 148,000 | |
| units authorized, issued and outstanding | 33,802, |
| General partners' equity | 439, |
| | ----- |
| Total partners' equity | 34,241, |
| | ----- |
| | \$ 34,327, |
| | ===== |

See accompanying notes.
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PS PARTNERS V, LTD.
a California Limited Partnership
STATEMENTS OF INCOME
For the years ended December 31, 2000, 1999 and 1998

| | 2000 | 1999 |
|--|------------|---------|
| | ----- | ----- |
| REVENUE: | | |
| Rental income | \$ 295,000 | \$ 290, |
| Equity in earnings of real estate entities | 5,022,000 | 3,792, |
| Interest income | 188,000 | 117, |

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| | | |
|--|--------------|-----------|
| | 5,505,000 | 4,199, |
| ----- | | |
| COSTS AND EXPENSES: | | |
| Cost of operations | 95,000 | 104, |
| Management fees | 18,000 | 17, |
| Depreciation and amortization | 53,000 | 55, |
| Administrative | 158,000 | 137, |
| | 324,000 | 313, |
| ----- | | |
| NET INCOME | \$ 5,181,000 | \$ 3,886, |
| ===== | | |
| Limited partners' share of net income (\$30.85, \$21.99 and \$21.55 per unit in 2000, 1999 and 1998, respectively) | \$ 4,566,000 | \$ 3,254, |
| General partners' share of net income | 615,000 | 632, |
| | \$ 5,181,000 | \$ 3,886, |
| ===== | | |

See accompanying notes.
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PS PARTNERS V, LTD.
a California Limited Partnership
STATEMENTS OF PARTNERS' EQUITY
For the years ended December 31, 2000, 1999 and 1998

| | Limited Partners | General Partners |
|-------------------------------|---------------------|---------------------|
| ----- | | |
| Balances at December 31, 1997 | \$ 36,743,000 | \$ 468, |
| Net income | 3,190,000 | 431, |
| Distributions | (3,552,000) | (434, |
| | 36,381,000 | 465, |
| Balances at December 31, 1998 | 36,381,000 | 465, |
| Net income | 3,254,000 | 632, |
| Distributions | (5,333,000) | (653, |
| | 34,302,000 | 444, |
| Balances at December 31, 1999 | 34,302,000 | 444, |
| Net income | 4,566,000 | 615, |
| Distributions | (5,066,000) | (620, |

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Balances at December 31, 2000

\$ 33,802,000 \$ 439,

See accompanying notes.
Appendix E - Page 8

PS PARTNERS V, LTD.
a California Limited Partnership
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2000, 1999 and 1998

| | 2000 | 1999 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Net income | \$ 5,181,000 | \$ 3,000,000 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 53,000 | (1,000) |
| Increase in rent and other receivables | (285,000) | (1,000) |
| (Increase) decrease in other assets | (32,000) | (1,000) |
| (Decrease) increase in accounts payable | (42,000) | (1,000) |
| (Decrease) increase in advance payments from renters | (2,000) | (1,000) |
| Equity in earnings of real estate entities | (5,022,000) | (3,000,000) |
| Total adjustments | (5,330,000) | (3,000,000) |
| Net cash (used in) provided by operating activities | (149,000) | (149,000) |
| Cash flows provided by investing activities: | | |
| Distributions from real estate entities | 5,878,000 | 5,878,000 |
| Additions to real estate facilities | (38,000) | (38,000) |
| Net cash provided by investing activities | 5,840,000 | 5,840,000 |
| Cash flows used in financing activities: | | |
| Distributions to partners | (5,686,000) | (5,686,000) |
| Net cash used in financing activities | (5,686,000) | (5,686,000) |
| Net increase (decrease) in cash and cash equivalents | 5,000 | 5,000 |

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| | | |
|--|--------------|------|
| Cash and cash equivalents at the beginning of the period | 2,295,000 | 2 |
| | | |
| Cash and cash equivalents at the end of the period | \$ 2,300,000 | \$ 2 |
| | | |

See accompanying notes.
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PS PARTNERS V, LTD.
a California Limited Partnership
NOTES TO FINANCIAL STATEMENTS
December 31, 2000

1. Summary of Significant Accounting Policies and Partnership Matters

Description of Partnership

PS Partners V, Ltd., a California Limited Partnership (the "Partnership") was formed with the proceeds of an interstate public offering. PSI Associates II, Inc. ("PSA"), an affiliate of Public Storage Management, Inc., organized the Partnership along with B. Wayne Hughes ("Hughes"). In September 1993, Storage Equities, Inc., now known as Public Storage, Inc. ("PSI"), a California corporation, acquired the interest of PSA relating to its general partner capital contribution in the Partnership and was substituted as a co-general partner in place of PSA.

In 1995, there was a series of mergers among Public Storage Management, Inc. (which was the Partnership's mini-warehouse operator), Public Storage, Inc. and their affiliates (collectively, "PSMI"), culminating in the November 16, 1995 merger (the "PSMI Merger") of PSMI into Storage Equities, Inc. In the PSMI Merger, Storage Equities, Inc. was renamed Public Storage, Inc. and it acquired substantially all of PSMI's United States real estate operations and became the operator of the mini-warehouse properties in which the Partnership has an interest.

The Partnership has invested in existing mini-warehouse storage facilities which offer self-service storage spaces for lease, usually on a month-to-month basis, to the general public and, to a lesser extent, in existing business park facilities which offer industrial and office space for lease.

The Partnership has ownership interests in 33 properties in 14 states (collectively referred to as the "Mini-Warehouse Properties"), which exclude two properties (one which was wholly owned by the Partnership, the other owned by SEI/PSP V Joint Ventures) transferred to PS Business Parks, L.P. ("PSBPLP") in January 1997. 32 of the properties are owned by SEI/PSP V Joint Ventures (the "Joint Venture"), a general partnership between the Partnership and PSI. The Partnership is the managing general partner of the Joint Venture, with ownership interests in the individual properties of the Joint Venture ranging from 50% to 70.6%.

As used hereinafter, the Joint Venture and PSBPLP are referred to as the "Real Estate Entities."

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Basis of Presentation

The financial statements include the accounts of the Partnership. The accounts of the Joint Venture, which the Partnership does not control, are not consolidated with the Partnership and the Partnership's interest in the Joint Venture is accounted for on the equity method.

The Partnership does not control the Joint Venture because PSI has significant control rights with respect to the management of the properties, including the right to compel the sale of each property in the Joint Venture and the right to require the Partnership to submit operating budgets.

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1. Summary of Significant Accounting Policies and Partnership Matters (Continued)

Under the terms of the general partnership agreement of the Joint Venture all depreciation and amortization with respect to each property is allocated solely to the Partnership until the limited partners recover their initial capital contribution. Thereafter, all depreciation and amortization is allocated solely to PSI until it recovers its initial capital contribution. All remaining depreciation and amortization is allocated to the Partnership and PSI in proportion to their ownership percentages.

Under the terms of the partnership agreements, PSI has the right to compel the sale of each property in the general partnerships at any time after seven years from the date of acquisition at not less than its independently determined fair market value provided the Partnership receives its share of the net proceeds solely in cash. PSI's right to require the Partnership to sell all of the properties owned jointly with the Partnership has been exercisable in all periods presented.

Under the terms of the partnership agreements, for property acquisitions in which PSI issued convertible securities to the sellers for its interest, PSI's rights to receive cash flow distributions from the partnerships for any year after the first year of operation are subordinated to cash distributions to the Partnership equal to a cumulative annual 7% of its cash investment (not compounded). These agreements also specify that upon sale or refinancing of a property for more than its original purchase price, distribution of proceeds to PSI is subordinated to the return to the Partnership of the amount of its cash investment and the 7% distribution described above.

Depreciation and amortization

The Partnership and the Joint Venture depreciate the buildings and equipment on a straight-line method over estimated useful lives of 25 and 5 years, respectively.

Revenue Recognition

Property rents are recognized as earned.

Allocation of Net Income

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The General Partners' share of net income consists of an amount attributable to their 1% capital contribution and an additional percentage of cash flow (as defined, see Note 4) which relates to the General Partners' share of cash distributions as set forth in the Partnership Agreement. All remaining net income is allocated to the limited partners.

Per Unit Data

Per unit data is based on the number of limited partnership units (148,000) outstanding during the year.

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1. Summary of Significant Accounting Policies and Partnership Matters (Continued)

Environmental Cost

Substantially all of the real estate facilities in which the Partnership has an interest were acquired prior to the time that it was customary to conduct extensive environmental investigations in connection with the property acquisitions. Although there can be no assurance, the Partnership is not aware of any environmental contamination of the Mini-Warehouse Properties which individually or in the aggregate would be material to the Partnership's overall business, financial condition, or results of operations.

Segment Reporting

Effective January 1, 1998, the Partnership adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS No. 131 established standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The Partnership only has one reportable segment as defined within SFAS No. 131, therefore the adoption of SFAS No. 131 had no effect on the Partnership's disclosures.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Distributions

The Partnership Agreement provides for quarterly distributions of cash flow from operations (as defined). Cash distributions per unit were \$34.23, \$36.03 and \$24.00 per year during 2000, 1999 and 1998, respectively.

Cash and Cash Equivalents

For financial statement purposes, the Partnership considers

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all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Appendix E - Page 12

1. Summary of Significant Accounting Policies and Partnership Matters
(Continued)

Recently Issued Accounting Standards

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 by Statement of Financial Accounting Standards No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. As amended by Statement of Financial Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," the provisions of SFAS 133 will require adoption by the Partnership on January 1, 2001. The Partnership adopted SFAS 133, as amended by SFAS 138, on January 1, 2001, and the adoption had no material impact on the Partnership's consolidated financial statements.

2. Real Estate Facilities

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121 ("Statement 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." Statement 121 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the method of accounting for long-lived assets that are expected to be disposed. The Partnership adopted Statement 121 in 1996 and the adoption had no effect.

In January 1997, the Partnership, the Joint Venture and PSI and other related partnerships transferred a total of 35 business parks to PSBPLP, an operating partnership formed to own and operate business parks in which PSI has a significant interest. Included among the properties transferred were the Partnership's and the Joint Venture's business parks in exchange for a partnership interest in PSBPLP. The general partner of PSBPLP is PS Business Parks, Inc. ("PSBP")

3. Investment in real estate entities

During 2000, 1999, and 1998, the Partnership recognized earnings from the Real Estate Entities of \$5,022,000, \$3,792,000 and \$3,494,000, respectively, and received cash distributions totaling \$5,878,000, \$5,393,000, and \$5,523,000, respectively from the Real Estate Entities. In addition, 2000 equity in earnings includes \$208,000, representing the Partnership's share of a gain on sale of real estate investments recorded by PSBPLP.

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3. Investment in real estate entities (Continued)

The accounting policies of the Real Estate Entities are similar to that of the Partnership. Summarized combined financial data with respect to the Real Estate Entities are as follows:

| | 2000 | 1999 |
|---|----------------|----------------|
| For the year ended December 31, | | |
| Total revenues | \$ 166,721,000 | \$ 144,013,000 |
| Minority interest in income | 26,741,000 | 16,110,000 |
| Net income | 58,843,000 | 48,380,000 |
| At December 31, | | |
| Total assets, net of accumulated depreciation | \$ 988,414,000 | \$ 961,360,000 |
| Total liabilities | 63,097,000 | 59,471,000 |
| Total minority interest | 306,478,000 | 289,949,000 |
| Total equity | 618,839,000 | 611,940,000 |

The increase in the size of the combined financial position and operating results, respectively, of the Real Estate Entities for the year ended December 31, 2000 and at December 31, 1999, respectively, as compared to prior periods, is the result of additional properties purchased by PSBPLP during 1999 and 2000.

Financial statements of the Joint Venture are filed with the Partnership's Form 10-K for 2000, in Item 14. PS Business Parks, Inc. is a registrant with the Securities and Exchange Commission, and its filings can be accessed through the Securities and Exchange Commission.

4. General Partners' Equity

The General Partners have a 1% interest in the Partnership. In addition, the General Partners have a 10% interest in cash distributions attributable to operations, exclusive of distributions attributable to sales and refinancing proceeds. Proceeds from sales and refinancings will be distributed entirely to the limited partners until the limited partners recover their investment plus a cumulative 8% annual return (not compounded); thereafter, the General Partners have a 15% interest in remaining proceeds.

5. Related Party Transactions

The Partnership has a management agreement with PSI whereby PSI operates the Mini-Warehouse Properties for a fee equal to 6% of the facilities' monthly gross revenue (as defined).

In January 1997, the Partnership and the Joint Venture transferred their business park facilities to PSBPLP in exchange for a partnership interest in PSBPLP. PSI has a significant economic interest in PSBPLP and PSBP.

6. Leases

The Partnership has invested primarily in existing mini-warehouse storage facilities which offer self-service storage spaces for lease to the general public. Leases for such space are usually on a month-to-month basis.

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7. Taxes Based on Income

Taxes based on income are the responsibility of the individual partners and, accordingly, the Partnership's financial statements do not reflect a provision for such taxes.

Unaudited taxable net income was \$5,671,000, \$4,223,000 and \$3,668,000 for the years ended December 31, 2000, 1999 and 1998, respectively. The difference between taxable income and book income is primarily related to timing differences in depreciation expense.

8. Supplementary Quarterly Financial Data (Unaudited)

| | Three Months Ended | | | |
|---------------------|--------------------|---------------|--------------------|-------------------|
| | March 31, 2000 | June 30, 2000 | September 30, 2000 | December 31, 2000 |
| Revenues | \$ 1,150,000 | \$ 1,367,000 | \$ 1,411,000 | \$ 1,411,000 |
| Net Income | \$ 1,077,000 | \$ 1,248,000 | \$ 1,344,000 | \$ 1,344,000 |
| Net Income Per Unit | \$ 6.54 | \$ 7.68 | \$ 7.21 | \$ 7.21 |

| | Three Months Ended | | | |
|---------------------|--------------------|---------------|--------------------|-------------------|
| | March 31, 1999 | June 30, 1999 | September 30, 1999 | December 31, 1999 |
| Revenues | \$ 902,000 | \$ 1,023,000 | \$ 1,162,000 | \$ 1,162,000 |
| Net Income | \$ 831,000 | \$ 933,000 | \$ 1,076,000 | \$ 1,076,000 |
| Net Income Per Unit | \$ 3.55 | \$ 5.58 | \$ 6.53 | \$ 6.53 |

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Report of Independent Auditors

The Partners
SEI/PSP V Joint Ventures

We have audited the balance sheets of the SEI/PSP V Joint Ventures as of December 31, 2000 and 1999 and the related statements of income, partners' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Joint Ventures' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence

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supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SEI/PSP V Joint Ventures at December 31, 2000 and 1999, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

March 23, 2001
Los Angeles, CA

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SEI/PSP JOINT VENTURES
a California Limited Partnership
BALANCE SHEETS
December 31, 2000 and 1999

| | 2000 |
|----------------------------------|----------|
| ASSETS | |
| Cash and cash equivalents | \$ 306, |
| Rent and other receivables | 141, |
| Real estate facilities, at cost: | |
| Land | 15,525, |
| Buildings and equipment | 59,233, |
| | ----- |
| | 74,758, |
| Less accumulated depreciation | (34,827, |
| | ----- |
| | 39,931, |
| Investment in real estate entity | 17,150, |
| Other assets | 130, |
| | ----- |

\$ 57,658,
=====

LIABILITIES AND PARTNERS' EQUITY

| | |
|-------------------------------|-------------|
| Accounts payable | \$ 947, |
| Accrued construction costs | 1,794, |
| Advance payments from renters | 421, |
| Partners' equity: | |
| PS Partners V, Ltd. | 23,655, |
| Public Storage, Inc. | 30,841, |
| | ----- |
| Total partners' equity | 54,496, |
| | ----- |
| | \$57,658,00 |
| | ===== |

See accompanying notes.
Appendix E - Page 17

SEI/PSP V JOINT VENTURES
a California Limited Partnership
STATEMENTS OF INCOME
For the years ended December 31, 2000, 1999 and 1998

| | 2000 | 1999 |
|--|---------------|-----------|
| | ----- | ----- |
| REVENUE: | | |
| Rental income | \$ 14,798,000 | \$ 14,349 |
| Equity in earnings of real estate entity | 1,289,000 | 1,051 |
| | ----- | ----- |
| | 16,087,000 | 15,400 |
| | ----- | ----- |
| COSTS AND EXPENSES: | | |
| Cost of operations | 4,716,000 | 4,552 |
| Management fees | 888,000 | 861 |
| Depreciation and amortization | 2,821,000 | 2,862 |
| | ----- | ----- |
| | 8,425,000 | 8,275 |
| | ----- | ----- |
| NET INCOME | \$ 7,662,000 | \$ 7,125 |
| | ===== | ===== |

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| | | |
|--------------------------------|--------------|--------------|
| Partners' share of net income: | | |
| PS Partners V, Ltd.'s share | \$ 4,653,000 | \$ 3,492,000 |
| Public Storage Inc.'s share | 3,009,000 | 3,633,000 |
| | ----- | ----- |
| | \$ 7,662,000 | \$ 7,125,000 |
| | ===== | ===== |

See accompanying notes.
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SEI/PSP V JOINT VENTURES
a California Limited Partnership
STATEMENTS OF PARTNERS' EQUITY
For the years ended December 31, 2000, 1999 and 1998

| | PS Partners V, Ltd. | Public Stor Inc. |
|-------------------------------|------------------------|---------------------|
| | ----- | ----- |
| Balances at December 31, 1997 | \$ 28,471,000 | \$ 31,335,000 |
| Net income | 3,229,000 | 3,824,000 |
| Distributions | (5,321,000) | (3,478,000) |
| | ----- | ----- |
| Balances at December 31, 1998 | 26,379,000 | 31,681,000 |
| Net income | 3,492,000 | 3,633,000 |
| Distributions | (5,208,000) | (3,568,000) |
| | ----- | ----- |
| Balances at December 31, 1999 | 24,663,000 | 31,746,000 |
| Net income | 4,653,000 | 3,009,000 |
| Distributions | (5,661,000) | (3,914,000) |
| | ----- | ----- |
| Balances at December 31, 2000 | \$ 23,655,000 | \$ 30,841,000 |
| | ===== | ===== |

See accompanying notes.
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SEI/PSP V JOINT VENTURES
a California Limited Partnership
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2000, 1999 and 1998

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| | 2000 | 1999 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Net income | \$ 7,662,000 | \$ 7,662,000 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 2,821,000 | 2,821,000 |
| Increase in rent and other receivables | (33,000) | (33,000) |
| (Increase) decrease in other assets | (7,000) | (7,000) |
| Increase (decrease) in accounts payable | 142,000 | 142,000 |
| Increase (decrease) in advance payments from renters | 16,000 | 16,000 |
| Equity in earnings of real estate entity | (1,289,000) | (1,289,000) |
| | ----- | ----- |
| Total adjustments | 1,650,000 | 1,650,000 |
| | ----- | ----- |
| Net cash provided by operating activities | 9,312,000 | 8,662,000 |
| | ----- | ----- |
| Cash flows provided by (used in) investing activities: | | |
| Distributions from real estate entity | 651,000 | 651,000 |
| Additions to real estate facilities | (403,000) | (403,000) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | 248,000 | 248,000 |
| | ----- | ----- |
| Cash flows used in financing activities: | | |
| Distributions to partners | (9,575,000) | (9,575,000) |
| | ----- | ----- |
| Net cash used in financing activities | (9,575,000) | (9,575,000) |
| | ----- | ----- |
| Net (decrease) increase in cash and cash equivalents | (15,000) | (15,000) |
| Cash and cash equivalents at the beginning of the period | 321,000 | 321,000 |
| | ----- | ----- |
| Cash and cash equivalents at the end of the period | \$ 306,000 | \$ 306,000 |
| | ===== | ===== |

See accompanying notes.
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SEI/PSP V POINT VENTURES
a California Limited Partnership

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NOTES TO FINANCIAL STATEMENTS

December 31, 2000

1. Description of Partnership

SEI/PSP V Joint Ventures (the "Joint Venture") was formed on December 31, 1990 in connection with the consolidation of 22 separate general partnerships between Public Storage Inc. ("PSI") and PS Partners V, Ltd. ("PSP V"). The Joint Venture, through its predecessor general partnerships, invested in existing mini-warehouse facilities which offer self-service storage spaces for lease, usually on a month-to-month basis, to the general public and, to a lesser extent, in existing business park facilities which offer industrial and office space for lease.

The Joint Venture owns 32 properties (referred to hereinafter as the "Mini-Warehouses"), which excludes a property which was transferred to PS Business Parks, L.P. ("PSBPLP") in January 1997. PSP V is the managing general partner of the Joint Venture, with its ownership interests in the properties of the Joint Venture ranging from 50% to 70.6%.

2. Summary of Significant Accounting Policies and Partnership Matters

Basis of Presentation

The financial statements include the accounts of the Joint Venture.

Under the terms of the general partnership agreement of the Joint Venture, for property acquisitions in which PSI issued convertible securities to the sellers for its interest, PSI's right to receive cash flow distributions for any year after the first year of operation are subordinated to cash distributions to PSP V equal to a cumulative annual 7% of its cash investment (not compounded). In addition, upon sale or refinancing of a property for more than its original purchase price, distribution of proceeds to PSI is subordinated to the return to PSP V of the amount of its cash investment and the 7% distribution described above.

Depreciation and amortization

The Joint Venture depreciates the buildings and equipment on a straight-line method over estimated useful lives of 25 and 5 years, respectively.

Revenue and Expense Recognition

Property rents are recognized as earned. Advertising costs of \$585,000, \$486,000 and \$393,000 in 2000, 1999 and 1998, respectively, are expensed as incurred.

Allocation of Net Income to PSP V and PSI

Net income prior to depreciation is allocated to PSP V and PSI based upon their relative ownership interest in each property and the results of each property.

Under the terms of the general partnership agreement of the Joint Venture all depreciation and amortization with respect to each Joint Venture is allocated solely to PSP V until it recovers its

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initial capital contribution. Thereafter, all depreciation and amortization is allocated solely to PSI until it recovers its initial capital contribution. All remaining depreciation and amortization is allocated to PSP V and PSI in proportion to their ownership percentages.

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2. Summary of Significant Accounting Policies and Partnership Matters (Continued)

Accrued Construction Costs

During 2000, the Joint Venture expanded its San Antonio - Hackberry St. real estate facility for a cost of \$1,794,000. The construction costs were paid to an affiliate in the first quarter of 2001, and were presented as "Accrued Construction Costs" at December 31, 2000. Concurrent with the payment of construction costs in the first quarter of 2001, PSI made a capital contribution (unaudited) of \$603,000 and the Partnership made a capital contribution of \$1,191,000 (unaudited), representing their respective ownership interest in the property.

Cash Distributions

The general partnership agreement of the Joint Venture provides for regular distributions of cash flow from operations (as defined).

Cash and Cash Equivalents

For financial statement purposes, the Joint Venture considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Environmental Cost

Substantially all of the real estate facilities in which the Joint Venture has an interest were acquired prior to the time that it was customary to conduct extensive environmental investigations in connection with the property acquisitions. Although there can be no assurance, the Joint Venture is not aware of any environmental contamination of the Mini-Warehouses which individually or in the aggregate would be material to the Joint Venture's overall business, financial condition, or results of operations.

Segment Reporting

Effective January 1, 1998, the Joint Venture adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS No. 131 established standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The Joint Venture only has one reportable segment as defined within SFAS No. 131, therefore the adoption of SFAS No. 131 had no effect on the Joint Venture's disclosures.

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Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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2. Summary of Significant Accounting Policies and Partnership Matters (Continued)

Recently Issued Accounting Standards

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 by Statement of Financial Accounting Standards No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. As amended by Statement of Financial Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," the provisions of SFAS 133 will require adoption by the Partnership on January 1, 2001. The Partnership adopted SFAS 133, as amended by SFAS 138, on January 1, 2001, and the adoption had no material impact on the Partnership's consolidated financial statements.

3. Real Estate Facilities

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121 ("Statement 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." Statement 121 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the method of accounting for long-lived assets that are expected to be disposed. The Joint Venture adopted Statement 121 in 1996 and the adoption had no effect.

In January 1997, the Joint Venture and PSI and other affiliated partnerships of PSI transferred a total of 35 business parks to PSBPLP, an operating partnership formed to own and operate business parks in which PSI has a significant interest. Included among the properties transferred was the Joint Venture's business park in exchange for a partnership interest in PSBPLP. The general partner of PSBPLP is PS Business Parks, Inc. ("PSBP").

4. Investment in Real Estate Entity

In 2000, 1999, and 1998, the Joint Venture recognized \$1,289,000, \$1,051,000, and \$931,000, respectively, in equity in earnings of real estate entities with respect to the investment in PSBPLP, described in Note 3 above. Included in equity in earnings for 2000 is \$172,000, representing the Joint Venture's share of PSBPLP's

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gains on sales of real estate investments.

Appendix E - Page 23

4. Investment in Real Estate Entity (Continued)

The accounting policies of PSBPLP are similar to that of the Joint Venture. Summarized combined financial data with respect to PSBPLP is as follows:

| | 2000 | 1999 |
|---|----------------|----------------|
| | ----- | ----- |
| For the year ended December 31, | | |
| Total revenues | \$ 150,634,000 | \$ 128,613,000 |
| Minority interest in income | 26,741,000 | 16,110,000 |
| Net income | 51,181,000 | 41,255,000 |
| At December 31, | | |
| Total assets, net of accumulated depreciation | \$ 930,756,000 | \$ 903,741,000 |
| Total liabilities | 59,935,000 | 58,261,000 |
| Total minority interest | 306,478,000 | 289,949,000 |
| Total equity | 564,343,000 | 555,531,000 |

The increase in the size of the combined financial position and operating results, respectively, of the Real Estate Entity for the year ended December 31, 2000 and at December 31, 1999, respectively, as compared to prior periods, is the result of additional properties purchased by PSBPLP during 1999 and 2000.

PS Business Parks, Inc., which owns PSBPLP, is a registrant with the Securities and Exchange Commission, and its filings can be accessed through the Securities and Exchange Commission.

5. Related Party Transactions

The Joint Venture has a management agreement with PSI whereby PSI operates the Mini-Warehouses for a fee equal to 6% of the facilities' monthly gross revenue (as defined).

In January 1997, the Joint Venture transferred its business park facility to PSBPLP in exchange for a partnership interest in PSBPLP. PSI has a significant economic interest in PSBPLP and PSBP.

6. Leases

The Joint Venture has invested primarily in existing mini-warehouse storage facilities which offer self-service storage spaces for lease to the general public. Leases for such space are usually on a month-to-month basis.

7. Taxes Based on Income

Taxes based on income are the responsibility of PSP V and PSI and, accordingly, the Joint Venture's financial statements do not reflect a provision for such taxes.

Unaudited taxable net income was \$6,215,000, \$5,711,000 and \$5,784,000 for the years ended December 31, 2000, 1999 and 1998, respectively. The difference between taxable income and book income is

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primarily related to timing differences in depreciation expense.

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Appendix F

PS PARTNERS V, LTD.
a California Limited Partnership

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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PS PARTNERS V, LTD
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

When used within this document, the words "expects," "believes," "anticipates," "should," "estimates," and similar expressions are intended to identify "forward-looking statements" within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and in Section 21F of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause the actual results and performance of the Partnership to be materially different from those expressed or implied in the forward-looking statements. Such factors include the impact of competition from new and existing real estate facilities which could impact rents and occupancy levels at the real estate facilities in which the Partnership has an interest; the Partnership's ability to effectively compete in the markets in which it does business; the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing Partnerships; and the impact of general economic conditions upon rental rates and occupancy levels at the real estate facilities in which the Partnership has an interest.

Results of Operations - Financials at September 30, 2001

Three months ended September 30, 2001 compared to three months ended September

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30, 2000:

Our net income for the three months ended September 30, 2001 was \$1,482,000 compared to \$1,344,000 for the three months ended September 30, 2000, representing an increase of \$138,000 or 10.3%. The increase was primarily due to our share of improved operations at the real estate facilities in which we have an interest and a decrease in depreciation expense allocated to the Partnership with respect to the Joint Venture.

Property Operations

Rental income for our wholly-owned mini-warehouse property was \$81,000 compared to \$79,000 for the three months ended September 30, 2001 and 2000, respectively, representing an increase of \$2,000 or 2.5%. Cost of operations (including management fees) increased \$2,000 or 6.9%, to \$31,000 from \$29,000 for the three months ended September 30, 2001 and 2000, respectively. Accordingly, for our wholly-owned mini-warehouse property, property net operating income remained stable at \$50,000 for the three months ended September 30, 2001 and 2000, respectively.

Equity in Earnings of Real Estate Entities

Equity in earnings of real estate entities was \$1,453,000 in the three months ended September 30, 2001 as compared to \$1,273,000 during the three months ended September 30, 2000, representing an increase of \$180,000, or 14.1%. This increase was primarily due to our share of improved property operations at the real estate facilities in which we have an interest and a decrease in depreciation expense allocated to the Partnership with respect to the Joint Venture.

Interest Income

Interest income decreased by \$37,000, from \$59,000 for the three months ended September 30, 2000 to \$22,000 for the three months ended September 30, 2001, due to lower invested cash balances and lower interest rates.

Depreciation and Amortization

Depreciation and amortization increased by \$3,000, from \$13,000 to \$16,000 for the three months ended September 30, 2000 and 2001, respectively.

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Administrative

Administrative expense increased by \$2,000, to \$27,000 for the three months ended September 30, 2001 as compared to \$25,000 for the same period in 2000.

Nine months ended September 30, 2001 compared to nine months ended September 30, 2000:

Our net income for the nine months ended September 30, 2001 was \$4,328,000 compared to \$3,669,000 for the nine months ended September 30, 2000, representing an increase of \$659,000, or 18.0%. The increase was primarily due to our share of improved property operations at the real estate facilities in which we have an interest and a decrease in depreciation expense allocated to the Partnership with respect to the Joint Venture.

Property Operations

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Rental income for our wholly-owned mini-warehouse property was \$231,000 compared to \$219,000 for the nine months ended September 30, 2001 and 2000, respectively, representing an increase of \$12,000, or 5.5%. Cost of operations (including management fees) increased \$11,000, or 12.5%, to \$99,000 from \$88,000 for the nine months ended September 30, 2001 and 2000, respectively. Accordingly, for our wholly-owned mini-warehouse property, property net operating income increased \$1,000, or 0.8%, to \$132,000 from \$131,000 for the nine months ended September 30, 2001 and 2000, respectively.

Equity in Earnings of Real Estate Entities

Equity in earnings of real estate entities was \$4,278,000 in the nine months ended September 30, 2001 as compared to \$3,560,000 during the nine months ended September 30, 2000, representing an increase of \$718,000, or 20.2%. The increase was primarily due to our share of improved property operations at the real estate facilities in which we have an interest and a decrease in depreciation expense allocated to the Partnership with respect to the Joint Venture.

Interest Income

Interest income decreased by \$81,000, from \$149,000 for the nine months ended September 30, 2000 to \$68,000 for the nine months ended September 30, 2001 due to lower invested cash balances and lower interest rates.

Depreciation and Amortization

Depreciation and amortization increased \$6,000, from \$39,000 to \$45,000 for the nine months ended September 30, 2000 and 2001, respectively.

Administrative

Administrative expense decreased \$27,000, to \$105,000 in the nine months ended September 30, 2001 as compared to \$132,000 in the same period in 2000.

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Supplemental Property Data

Most of the Partnership's net income is from our share of the operating results of the Mini-Warehouse Properties. Therefore, in order to evaluate our operating results, the General Partners analyze the operating performance of the Mini-Warehouse Properties.

Three months ended September 30, 2001 compared to three months ended September 30, 2000:

Rental income for the Mini-Warehouse Properties was \$4,153,000 compared to \$3,859,000 for the three months ended September 30, 2001 and 2000, respectively, representing an increase of \$294,000 or 7.6%. The increase in rental income was primarily attributable to an increase in rental rates at the Mini-Warehouse Properties. The annual average realized rent per square foot for the Mini-Warehouse Properties was \$10.00 compared to \$9.30 for the three months ended September 30, 2001 and 2000, respectively. The weighted average occupancy levels at the Mini-Warehouse Properties remained stable at 91% for the three months ended September 30, 2000 and 2001, respectively. Cost of operations (including management fees) increased \$45,000 or 3.2%, to \$1,468,000 from

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\$1,423,000 for the three months ended September 30, 2001 and 2000, respectively. This increase is primarily attributable to increases in advertising and promotion expenses, offset partially by lower repairs and maintenance expenses. Accordingly, for the Mini-Warehouse Properties, property net operating income increased by \$249,000 or 10.2%, from \$2,436,000 to \$2,685,000 for the three months ended September 30, 2000 and 2001, respectively.

Nine months ended September 30, 2001 compared to nine months ended September 30, 2000:

Rental income for the Mini-Warehouse Properties was \$12,063,000 compared to \$11,267,000 for the nine months ended September 30, 2000 and 1999, respectively, representing an increase of \$796,000 or 7.1%. The increase in rental income was primarily attributable to an increase in rental rates at the Mini-Warehouse Properties. The annual average realized rent per square foot for the Mini-Warehouse Properties was \$9.78 compared to \$9.08 for the nine months ended September 30, 2001 and 2000, respectively. The weighted average occupancy levels at the Mini-Warehouse Properties decreased from 92% to 90% for the nine months ended September 30, 2000 and 2001, respectively. Cost of operations (including management fees) increased \$85,000 or 2.0%, to \$4,292,000 from \$4,207,000 for the nine months ended September 30, 2001 and 2000, respectively. This increase is primarily attributable to increases in advertising and promotion expenses, offset partially by lower repairs and maintenance expenses. Accordingly, for the Mini-Warehouse Properties, property net operating income increased by \$711,000 or 10.1%, from \$7,060,000 to \$7,771,000 for the nine months ended September 30, 2000 and 2001, respectively.

Liquidity and Capital Resources

We have adequate sources of cash to finance our operations, both on a short-term and long-term basis, primarily from internally generated cash from property operations and cash reserves. Cash generated from operations and distributions from real estate entities (\$3,594,000 for the nine months ended September 30, 2001) has been sufficient to meet all our current obligations.

During 2001, we do not anticipate incurring significant costs for capital improvements for the Partnership's wholly-owned property. Total capital improvements for the nine months ended September 30, 2001 with respect to our wholly-owned property was \$6,000.

We paid distributions to the limited and general partners totaling \$2,892,000 (\$19.54 per unit) and \$355,000, respectively, during the first nine months of 2001. Future distribution rates may be adjusted to levels which are supported by operating cash flow after capital improvements and any other necessary obligations.

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Results of Operations - Financials at December 31, 2000

Year ended December 31, 2000 compared to year ended December 31, 1999:

The Partnership's net income was \$5,181,000 in 2000 compared to \$3,886,000 in 1999, representing an increase of \$1,295,000, or 33.3%. The increase is due primarily to the Partnership's share of an improvement in operations of the mini-warehouses in which the Partnership has an interest (the "Mini-Warehouse Properties"), the Partnership's share of increased operating results of PSBPLP and a decrease in depreciation allocated to the Partnership with respect to the joint venture.

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Property Operations

Rental income for the Partnership's wholly-owned property was \$295,000 in 2000 compared to \$290,000 during 1999, representing an increase of \$5,000, or 1.7%. Cost of operations (including management fees) decreased \$8,000, or 6.6%, to \$113,000 during 2000 from \$121,000 in 1999. Accordingly, for the Partnership's mini-warehouse operations, property net operating income increased by \$13,000, or 7.7%, to \$182,000 in 2000 from \$169,000 in 1999.

Equity in earnings of real estate entities

Equity in earnings of real estate entities was \$5,022,000 in 2000 as compared to \$3,792,000 during 1999, representing an increase of \$1,230,000, or 32.4%. The increase was due primarily to the Partnership's share of improved operating results at the Joint Venture's mini-warehouse properties, the Partnership's share of increase operating results of PSBPLP and a decrease in depreciation allocated to the Partnership with respect to the joint venture. The increase also includes \$208,000 representing the Partnership's share of a gain on sale of real estate investments recorded by PSBPLP in 2000.

Year ended December 31, 1999 compared to year ended December 31, 1998:

The Partnership's net income was \$3,886,000 in 1999 compared to \$3,621,000 in 1998, representing an increase of \$265,000, or 7.3%. The increase is due primarily to the Partnership's share of an improvement in operations of the mini-warehouses in which the Partnership has an interest (the "Mini-Warehouse Properties"), the Partnership's share of increase operating results of PSBPLP and a decrease in depreciation allocated to the Partnership with respect to the joint venture.

Property Operations

Rental income for the Partnership's wholly-owned property was \$290,000 in 1999 compared to \$324,000 during 1998, representing a decrease of \$34,000, or 10.5%. Cost of operations (including management fees) remained stable at \$121,000 during 1999 and 1998. Accordingly, for the Partnership's mini-warehouse operations, property net operating income decreased by \$34,000, or 16.7%, to \$169,000 in 1999 from \$203,000 in 1998.

Equity in earnings of real estate entities

Equity in earnings of real estate entities was \$3,792,000 in 1999 as compared to \$3,494,000 during 1998, representing an increase of \$298,000, or 8.5%. The increase was due primarily to the Partnership's share of improved operating results at the Joint Venture's mini-warehouse properties, the Partnership's share of increased operating results of PSBPLP and a decrease in depreciation allocated to the Partnership with respect to the joint venture.

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Supplemental Property Data

During 2000 and 1999, a majority of the Partnership's net income was from the Partnership's share of the operating results of the Mini-Warehouse Properties. Therefore, in order to evaluate the Partnership's operating results, the General Partners analyze the operating performance of the Mini-Warehouse Properties.

Year ended December 31, 2000 compared to the year ended December 31, 1999

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Rental income for the Mini-Warehouse Properties was \$15,093,000 in 2000 compared to \$14,639,000 during 1999, representing an increase of \$454,000, or 3.1%. The increase in rental income was primarily attributable to increased rental rates. The annual average realized rent per square foot was \$9.16 in 2000 compared to \$8.89 in 1999. The weighted average occupancy level was 91% in 2000 and 92% in 1999. Cost of operations (including management fees) increased \$183,000, or 3.3%, to \$5,717,000 during 2000 from \$5,534,000 in 1999. This increase was primarily attributable to increases in advertising, property tax, and repairs and maintenance. Accordingly, for the Mini-Warehouse Properties, property net operating income increased by \$271,000, or 3.0%, from \$9,105,000 in 1999 to \$9,376,000 during 2000.

Year ended December 31, 1999 compared to the year ended December 31, 1998

Rental income for the Mini-Warehouse Properties was \$14,639,000 in 1999 compared to \$14,256,000 during 1998, representing an increase of \$383,000, or 2.7%. The increase in rental income was primarily attributable to increased rental rates. The annual average realized rent per square foot was \$8.89 in 1999 compared to \$8.64 in 1998. The weighted average occupancy level remained stable at 92% during 1999 and 1998. Cost of operations (including management fees) increased \$261,000, or 4.9%, to \$5,534,000 during 1999 from \$5,273,000 in 1998. This increase was primarily attributable to increases in advertising, property tax, and management fees. Accordingly, for the Mini-Warehouse Properties, property net operating income increased by \$122,000, or 1.4%, from \$8,983,000 in 1998 to \$9,105,000 during 1999.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. Indemnification of Directors, Officers and Agents.

In August 1988, the Company's Articles of Incorporation were amended (as approved by the shareholders in August 1988) to provide that the Company may indemnify the agents of the Company to the maximum extent permitted under California law. See Section V of the Certificate of Amendment of Articles of Incorporation (Exhibit 3.11) and Article VII of the By-Laws (Exhibit 3.24) which are incorporated herein by this reference. In October 1988, the Company also entered into indemnity agreements (in the form approved by the shareholders in August 1988) with its management and non-management directors and executive officers. The agreements permit the Company to indemnify directors and executive officers to the maximum extent permitted under California law and prohibit the Company from terminating its indemnification obligations as to acts or omissions of any director or executive officer occurring before the termination. The indemnification and limitations on liability permitted by the amendment to the Articles of Incorporation and the agreements are subject to the limitations set forth by California law. The Company believes the indemnification agreements will assist it in attracting and retaining qualified individuals to serve as directors and executive officers of the Company.

ITEM 21. Exhibits and Financial Statement Schedules.

- (a) Exhibits: See Exhibit Index contained herein.
- (b) Financial Statement Schedules:

See Index to Financial Statement Schedules in registrant's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein

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by reference.

All other financial statement schedules are omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

ITEM 22. Undertakings.

The undersigned Registrant hereby undertakes as follows:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement. Provided, however, that paragraphs 1.(i) and 1.(ii) do not apply if the registration statement is on Form S-3 or Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.
2. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
3. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
4. That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is

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incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

5. That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.
6. That every prospectus (i) that is filed pursuant to paragraph (5) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
7. To respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11, or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.
8. Except as permitted by General Instruction H to Form S-4 (in a transaction not covered by General Instruction I), to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions described under Item 20 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling

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person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

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Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Glendale, State of California, on the 7th day of March, 2002.

PUBLIC STORAGE, INC.

By: /S/ HARVEY LENKIN
Harvey Lenkin, President

Each person whose signature appears below hereby authorizes B. Wayne Hughes and Harvey Lenkin, and each of them, as attorney-in-fact and agent, with full powers of substitution and resubstitution, to sign on his behalf, individually and in each capacity stated below, any amendment, including post-effective amendments to this Registration Statement and/or to sign any related registration statement filed pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and in each case to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, with full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully as to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute(s), may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| Signature | Capacity |
|---|--|
| ----- | ----- |
| /s/ B. Wayne Hughes ----- B. Wayne Hughes | Chairman of the Board, Chief Executive Officer and Director (principal executive officer) |
| /s/ Harvey Lenkin ----- Harvey Lenkin | President and Director |
| /s/ B. Wayne Hughes, Jr. ----- B. Wayne Hughes, Jr. | Vice President and Director |
| /s/ Marvin M. Lotz ----- Marvin M. Lotz | Senior Vice President and Director |
| /s/ John Reyes ----- John Reyes | Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer) |
| /s/ Robert J. Abernethy ----- Robert J. Abernethy | Director |
| /s/ Dann V. Angeloff | Director |

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Dann V. Angeloff

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| Signature | Capacity |
|--|----------|
| ----- /s/ William C. Baker ----- William C. Baker | Director |
| ----- Thomas J. Barrack, Jr. | Director |
| ----- /s/ Uri P. Harkham ----- Uri P. Harkham | Director |
| ----- /s/ Daniel C. Staton ----- Daniel C. Staton | Director |

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EXHIBIT INDEX

- 2.1 Agreement and Plan of Reorganization among Registrant, PS Partners V Merger Co., Inc. and PS Partners V, Ltd., a California Limited Partnership dated as of February 25, 2002 (filed as Appendix A to the Information Statement and Prospectus).
- 3.1 Restated Articles of Incorporation. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.2 Certificate of Determination for the 10% Cumulative Preferred Stock, Series A. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.3 Certificate of Determination for the 9.20% Cumulative Preferred Stock, Series B. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.4 Amendment to Certificate of Determination for the 9.20% Cumulative Preferred Stock, Series B. Filed with Registrant's Registration Statement No. 33-56925 and incorporated herein by reference.
- 3.5 Certificate of Determination for the 8.25% Convertible Preferred Stock.

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Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.

- 3.6 Certificate of Determination for the Adjustable Rate Cumulative Preferred Stock, Series C. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.7 Certificate of Determination for the 9.50% Cumulative Preferred Stock, Series D. Filed with Registrant's Form 8-A/A Registration Statement relating to the 9.50% Cumulative Preferred Stock, Series D and incorporated herein by reference.
- 3.8 Certificate of Determination for the 10% Cumulative Preferred Stock, Series E. Filed with Registrant's Form 8-A/A Registration Statement relating to the 10% Cumulative Preferred Stock, Series E and incorporated herein by reference.
- 3.9 Certificate of Determination for the 9.75% Cumulative Preferred Stock, Series F. Filed with Registrant's Form 8-A/A Registration Statement relating to the 9.75% Cumulative Preferred Stock, Series F and incorporated herein by reference.
- 3.10 Certificate of Determination for the Convertible Participating Preferred Stock. Filed with Registrant's Registration Statement No. 33-63947 and incorporated herein by reference.
- 3.11 Certificate of Amendment of Articles of Incorporation, Filed with Registrant's Registration Statement No. 33-63947 and incorporated herein by reference.
- 3.12 Certificate of Determination for the 8-7/8% Cumulative Preferred Stock, Series G. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000th of a Share of 8-7/8% Cumulative Preferred Stock, Series G and incorporated herein by reference.
- 3.13 Certificate of Determination for the 8.45% Cumulative Preferred Stock, Series H. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000th of a Share of 8.45% Cumulative Preferred Stock, Series H and incorporated herein by reference.
- 3.14 Certificate of Determination for the Convertible Preferred Stock, Series CC. Filed with Registrant's Registration Statement No. 333-03749 and incorporated herein by reference.
- 3.15 Certificate of Correction of Certificate of Determination for the Convertible Participating Preferred Stock. Filed with Registrant's Registration Statement No. 333-08791 and incorporated herein by reference.
- 3.16 Certificate of Determination for 8-5/8% Cumulative Preferred Stock, Series I. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-5/8% Cumulative Preferred Stock, Series I and incorporated herein by reference.
- 3.17 Certificate of Amendment of Articles of Incorporation. Filed with Registrant's Registration Statement No. 333-18395 and incorporated herein by reference.

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- 3.18 Certification of Determination for Equity Stock, Series A. Filed with Registrant's Form 10-Q for the quarterly period ended June 30, 1997 and incorporated herein by reference.
- 3.19 Certificate of Determination for Equity Stock, Series AA. Filed with Registrant's Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
- 3.20 Certificate Decreasing Shares Constituting Equity Stock, Series A. Filed with Registrant's Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
- 3.21 Certificate of Determination for Equity Stock, Series A. Filed with Registrant's Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
- 3.22 Certification of Determination for 8% Cumulative Preferred Stock, Series J. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J and incorporated herein by reference.
- 3.23 Certificate of Correction of Certificate of Determination for the 8.25% Convertible Preferred Stock. Filed with Registrant's Registration Statement No. 333-61045 and incorporated herein by reference.
- 3.24 Certification of Determination for 8-1/4% Cumulative Preferred Stock, Series K. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K and incorporated herein by reference.
- 3.25 Certificate of Determination for 8-1/4% Cumulative Preferred Stock, Series L. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L and incorporated herein by reference.
- 3.26 Certificate of Determination for 8.75% Cumulative Preferred Stock, Series M. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.75% Cumulative Preferred Stock, Series M and incorporated herein by reference.
- 3.27 Certificate of Determination for Equity Stock, Series AAA. Filed with Registrant's Current Report on Form 8-K dated November 15, 1999 and incorporated herein by reference.
- 3.28 Certification of Determination for 9.5% Cumulative Preferred Stock, Series N. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.
- 3.29 Certification of Determination for 9.125% Cumulative Preferred Stock, Series O. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000 and incorporated herein by reference.
- 3.30 Certificate of Determination for 8.75% Cumulative Preferred Stock, Series P. Filed with Registrant's Quarterly Report on Form 10-Q for the

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quarterly period ended June 30, 2000 and incorporated herein by reference.

- 3.31 Certificate of Determination for 8.600% Cumulative Preferred Stock, Series Q. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.600% Cumulative Preferred Stock, Series Q and incorporated herein by reference.
- 3.32 Amendment to Certificate of Determination for Equity Stock, Series A. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference.
- 3.33 Certificate of Determination for 8.000% Cumulative Preferred Stock, Series R. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.000% Cumulative Preferred Stock, Series R and incorporated herein by reference.
- 3.34 Certificate of Determination for 7.875% Cumulative Preferred Stock, Series S. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.875% Cumulative Preferred Stock, Series S and incorporated herein by reference.
- 3.35 Certificate of Determination for 7.625% Cumulative Preferred Stock, Series T. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series T and incorporated herein by reference.
- 3.36 Certificate of Determination for 7.625% Cumulative Preferred Stock, Series U. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series U and incorporated herein by reference.
- 3.37 Bylaws, as amended. Filed with Registrant's Registration Statement No. 33-64971 and incorporated herein by reference.
- 3.38 Amendment to Bylaws adopted on May 9, 1996. Filed with Registrant's Registration Statement No. 333-03749 and incorporated herein by reference.
- 3.39 Amendment to Bylaws adopted on June 26, 1997. Filed with Registrant's Registration Statement No. 333-41123 and incorporated herein by reference.
- 3.40 Amendment to Bylaws adopted on January 6, 1998. Filed with Registrant's Registration Statement No. 333-41123 and incorporated herein by reference.
- 3.41 Amendment to Bylaws adopted on February 10, 1998. Filed with Registrant's Current Report on Form 8-K dated February 10, 1998 and incorporated herein by reference.
- 3.42 Amendment to Bylaws adopted on March 4, 1999. Filed with Registrant's Current Report on Form 8-K dated March 4, 1999 and incorporated herein by reference.
- 3.43 Amendment to Bylaws adopted on May 6, 1999. Filed with Registrant's Form 10-Q for the quarterly period ended March 31, 1999 and

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incorporated herein by reference.

- 5.1 Opinion of David Goldberg. Filed herewith.
- 8.1 Opinion of A. Timothy Scott. Filed herewith.

- 10.1 Second Amended and Restated Management Agreement by and among Registrant and the entities listed therein dated as of November 16, 1995. Filed with PS Partners, Ltd.'s Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference.
- 10.2 Amended Management Agreement between Registrant and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.
- 10.3 Loan Agreement between Registrant and Aetna Life Insurance Company dated as of July 11, 1988. Filed with Registrant's Current Report on Form 8-K dated July 14, 1988 and incorporated herein by reference.
- 10.4 Amendment to Loan Agreement between Registrant and Aetna Life Insurance Company dated as of September 1, 1993. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.
- 10.5 Second Amended and Restated Credit Agreement by and among Registrant, Wells Fargo Bank, National Association, as agent, and the financial institutions party thereto dated as of February 25, 1997. Filed with Registrant's Registration Statement No. 333-22665 and incorporated herein by reference.
- 10.6 Note Assumption and Exchange Agreement by and among Public Storage Management, Inc., Public Storage, Inc., Registrant and the holders of the notes dated as of November 13, 1995. Filed with Registrant's Registration Statement No. 33-64971 and incorporated herein by reference.
- 10.7* Registrant's 1990 Stock Option Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.
- 10.8* Registrant's 1994 Stock Option Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
- 10.9* Registrant's 1996 Stock Option and Incentive Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference.
- 10.10 Deposit Agreement dated as of December 13, 1995, among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-7/8 Cumulative Preferred Stock, Series G. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1000th of a Share of 8-7/8 Cumulative Preferred Stock, Series G and incorporated herein by reference.
- 10.11 Deposit Agreement dated as of January 25, 1996, among Registrant, The First National Bank of Boston, and the holders of the depositary

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- receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.45% Cumulative Preferred Stock, Series H. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1000th of a Share of 8.45% Cumulative Preferred Stock, Series H and incorporated herein by reference.
- 10.12** Employment Agreement between Registrant and B. Wayne Hughes dated as of November 16, 1995. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference.
- 10.13 Deposit Agreement dated as of November 1, 1996, among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-5/8% Cumulative Preferred Stock, Series I. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1000th of a Share of 8-5/8% Cumulative Preferred Stock, Series I and incorporated herein by reference.
- 10.14 Limited Partnership Agreement of PSAF Development Partners, L. P. between PSAF Development, Inc. and the Limited Partner dated as of April 10, 1997. Filed with Registrant's Form 10-Q for the quarterly period ended March 31, 1997 and incorporated herein by reference.
- 10.15 Deposit Agreement dated as of August 28, 1997 among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J and incorporated herein by reference.
- 10.16 Agreement of Limited Partnership of PS Business Parks, L. P. dated as of March 17, 1998. Filed with PS Business Parks, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.
- 10.17 Deposit Agreement dated as of January 19, 1999 among Registrant, BankBoston, N. A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K and incorporated herein by reference.
- 10.18 Agreement and Plan of Merger among Storage Trust Realty, Registrant and Newco Merger Subsidiary, Inc. dated as of November 12, 1998. Filed with Registrant's Registration Statement No. 333-68543 and incorporated herein by reference.
- 10.19 Amendment No. 1 to Agreement and Plan of Merger among Storage Trust Realty, Registrant, Newco Merger Subsidiary, Inc. and STR Merger Subsidiary, Inc. dated as of January 19, 1999. Filed with Registrant's Registration Statement No. 333-68543 and incorporated herein by reference.
- 10.20 Amended and Restated Agreement of Limited Partnership of Storage Trust Properties, L. P., dated as of March 12, 1999. Filed with Registrant's

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Form 10-Q for the quarterly period ended June 30, 1999 and incorporated herein by reference.

- 10.21* Storage Trust Realty 1994 Share Incentive Plan. Filed with Storage Trust Realty's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
- 10.22 Amended and Restated Storage Trust Realty Retention Bonus Plan effective as of November 12, 1998. Filed with Registrant's Registration Statement No. 333-68543 and incorporated herein by reference.
- 10.23 Deposit Agreement dated as of March 10, 1999 among Registrant, Bank Boston, N.A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L and incorporated herein by reference.
- 10.24 Note Purchase Agreement and Guaranty Agreement with respect to \$100,000,000 of Senior Notes of Storage Trust Properties, L.P. Filed with Storage Trust Realty's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference.
- 10.25 Deposit Agreement dated as of August 17, 1999 among Registrant, Bank Boston, N.A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.75% Cumulative Preferred Stock, Series M. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.75% Cumulative Preferred Stock, Series M and incorporated herein by reference.
- 10.26 Limited Partnership Agreement of PSAC Development Partners, L.P. among PS Texas Holdings, Ltd., PS Pennsylvania Trust and PSAC Storage Investors, L.L.C. dated as November 15, 1999. Filed with Registrant's Current Report on Form 8-K dated November 15, 1999 and incorporated herein by reference.
- 10.27 Agreement of Limited Liability Company of PSAC Storage Investors, L.L.C. dated as of November 15, 1999. Filed with Registrant's Current Report on Form 8-K dated November 15, 1999 and incorporated herein by reference.
- 10.28 Deposit Agreement dated as of January 14, 2000 among Registrant, BankBoston, N.A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A and incorporated herein by reference.
- 10.29 Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. among PS Texas Holdings, Ltd. and the Limited Partners dated as of March 29, 2000. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.
- 10.30 Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. among PS Texas Holdings, Ltd. and the Limited Partners dated as of August 11, 2000. Filed with Registrant's

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Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.

- 10.31* Registrant's 2000 Non-Executive/Non-Director Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-52400 and incorporated herein by reference.
- 10.32 Deposit Agreement dated as of January 19, 2001 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.600% Cumulative Preferred Stock, Series Q. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.600% Cumulative Preferred Stock, Series Q and incorporated herein by reference.
- 10.33* Registrant's 2001 Non-Executive/Non-Director Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-59218 and incorporated herein by reference.
- 10.34* Registrant's 2001 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-59218 and incorporated herein by reference.
- 10.35 Deposit Agreement dated as of September 28, 2001 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.000% Cumulative Preferred Stock, Series R. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.000% Cumulative Preferred Stock, Series R and incorporated herein by reference.
- 10.36 Deposit Agreement dated as of October 31, 2001 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 7.875% Cumulative Preferred Stock, Series S. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.875% Cumulative Preferred Stock, Series S and incorporated herein by reference.
- 10.37 Credit Agreement by and among Registrant, Wells Fargo Bank, National Association, as agent, and the financial institutions party thereto dated as of November 1, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.
- 10.38 Deposit Agreement dated as of January 18, 2002 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series T. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series T and incorporated herein by reference.
- 10.39 Deposit Agreement dated as of February 19, 2002 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series U. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series U and incorporated herein by reference.

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- 23.1 Consent of Independent Auditors. Filed herewith.
- 23.2 Consent of David Goldberg (included in Exhibit 5.1).
- 23.3 Consent of A. Timothy Scott (included in Exhibit 8.1).
- 23.4 Consent of The Nicholson Group, Ltd. Filed herewith.
- 23.5 Consent of Robert A. Stanger & Co., Inc. Filed herewith.
- 99.1 Cash Election Form. Filed herewith.
- 99.2 Real Estate Appraisal Report by The Nicholson Group, Ltd. dated February 22, 2002 (filed as Appendix B to the Information Statement and Prospectus).
- 99.3 Opinion of Robert A. Stanger & Co., Inc. dated March 7, 2002 (filed as Appendix C to the Information Statement and Prospectus).

* Compensatory benefit plan.
** Management contract.